SOCIAL SECURITY IMPROVEMENTS FOR WOMEN, SENIORS, AND WORKING AMERICANS

HEARINGS

BEFORE THE

SUBCOMMITTEE ON SOCIAL SECURITY

OF THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

ONE HUNDRED SEVENTH CONGRESS

SECOND SESSION

FEBRUARY 28 AND MARCH 6, 2002

Serial No. 107–72

Printed for the use of the Committee on Ways and Means

U.S. GOVERNMENT PRINTING OFFICE

80–831 WASHINGTON : 2002

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
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CONTENTS

SOCIAL SECURITY IMPROVEMENTS FOR WOMEN, SENIORS, AND WORKING AMERICANS

THURSDAY, FEBRUARY 28, 2002

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

The Subcommittee met, pursuant to notice, at 11:10 a.m., in room B–318 Rayburn House Office Building, Hon. E. Clay Shaw, Jr. (Chairman of the Subcommittee) presiding.

[The advisory and revised advisory announcing the hearings follow:]

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

SUBCOMMITTEE ON SOCIAL SECURITY

FOR IMMEDIATE RELEASE
February 21, 2002
No. SS–12

CONTACT: (202) 225–9263

Shaw Announces Hearing on Social Security Improvements for Women, Seniors, and Working Americans

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 Social Security improvements for women, seniors, and working Americans. **The hearing will take place on Thursday, February 28, 2002, in room B–318 Rayburn House Office Building, beginning at 11:00 a.m.**

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

BACKGROUND:

Social Security faces serious financial challenges soon after the baby-boomers begin retiring later this decade. Making Social Security truly secure for the 21st century and beyond is a national priority for the public, Congress, and the President. However, efforts to strengthen Social Security cannot be done hastily or without bipartisan cooperation. While comprehensive reform may take time to emerge, many program improvements have been offered that could be made in the near-term. These include: enhancing Social Security benefits for women, assuring seniors that promised benefits will be paid, and improving information provided to the public on Social Security's future.

Enhancements to women's Social Security benefits would help ensure that Social Security continues to successfully reduce poverty for women and would better meet the evolving needs of women today. Without Social Security, over half of elderly women would live in poverty. Although vital to women's economic security, some aspects of the Social Security program have not kept pace with changes in women's participation in the workforce and trends in marriage and child-care. Many proposals have been made to improve Social Security benefits for women, ranging from minor adjustments to spouse and survivor benefits to improving widows' benefits to credits for years spent caring for young children. The impacts and costs of these proposals must be carefully assessed to ensure those most in need are helped first and to ensure that any effect on Social Security's long-term financing is minimized.

Not just women, but all seniors depend on Social Security for income they can count on. Yet, increasingly seniors are concerned that proposals to strengthen the program may result in changes to their promised benefits. While both the President and the U.S. House of Representatives have expressed their commitment to fully preserve promised benefits for current retirees and those nearing retirement, legislation has been introduced to provide beneficiaries with a certificate to guarantee benefits.

In some instances, seniors' concerns about changes in their benefits are fueled by conflicting information in the media and other sources about Social Security's financing shortfall. In order to make informed decisions about Social Security's future and their own retirement planning, Americans need to have a basic understanding of the Social Security program, its benefits, and its financing. The Social Security Statement, mailed annually to all workers age 25 and older provides basic information about individual benefits and limited information on Social Security finances. The Annual Report of the Board of Trustees provides detailed information on the financial status of the Social Security trust funds. To improve public understanding, proposals have been introduced to expand the amount of information included in the Social Security Statement and Annual Report.

In announcing the hearing, Chairman Shaw stated: "As we continue to work to find common ground on ways to secure Social Security's future, opportunities exist for us to forge a bipartisan beginning. Women make invaluable contributions to the growth of our economy and the stability of American families, yet despite a lifetime of hard work and sacrifice, many end up living in poverty during retirement. Seniors fear proposals aimed at saving Social Security will reduce the very benefit they count on to live. Information about Social Security's benefits and its future is out there, but some question whether such information is sufficient or widely understood. We should begin now to improve women's benefits, reassure seniors that their promised benefits are secured, and better educate Americans about Social Security."

FOCUS OF THE HEARING:

The Subcommittee will examine proposals to improve benefits for women, to guarantee promised benefits to seniors, and to improve public information about Social Security, its benefits, and its financial future.

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Please Note: Due to the change in House mail policy, any person or organization wishing to submit a written statement for the printed record of the hearing should send it electronically to *hearingclerks.waysandmeans@mail.house.gov,* along with a fax copy to (202) 225–2610 by the close of business, Thursday, March 14, 2002. Those filing written statements who wish to have their statements distributed to the press and interested public at the hearing should deliver their 200 copies to the Subcommittee on Social Security in room B–316 Rayburn House Office Building, in an open and searchable package 48 hours before the hearing. The U.S. Capitol Police will refuse unopened and unsearchable deliveries to all House Office Buildings.

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. Due to the change in House mail policy, all statements and any accompanying exhibits for printing must be submitted electronically to *hearingclerks.waysandmeans@mail.house.gov,* along with a fax copy to (202) 225–2610, in Word Perfect or MS Word format and MUST 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. Any statements must include a list of all clients, persons, or organizations on whose behalf the witness appears. A supplemental sheet must accompany each statement listing the name, company, address, telephone and fax numbers of each witness.

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

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

* * * NOTICE—SECOND HEARING DAY SCHEDULED * * *

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

SUBCOMMITTEE ON SOCIAL SECURITY

FOR IMMEDIATE RELEASE
February 27, 2002
No. SS–12–Rev

CONTACT: (202) 225–9263

Shaw Announces Second Day for Member Testimony to Subcommittee Hearing on Social Security Improvements for Women, Seniors, and Working Americans Wednesday March 6, 2002

Congressman E. Clay Shaw, Jr. (R–FL), Chairman of the Subcommittee on Social Security of the Committee on Ways and Means, today announced that due to Member interest, the Subcommittee hearing on Social Security improvements for women, seniors, and working Americans, scheduled for Thursday, February 28, 2002, at 11:00 a.m., in room B–318 Rayburn House Office Building, **will be extended to a second day reserved exclusively for Member testimony. Day two of the hearing will be held on Wednesday, March 6, 2002, at 10:00 a.m., in room B–318 Rayburn House Office Building**.

Chairman SHAW. Good morning. We seem to have a great deal of interest in today's hearing. I think it will be a most interesting hearing. I would like to welcome each and every one of you.

Strengthening Social Security is a goal to many of us in this room. It is a most important program, and it provides income security to nearly 46 million American people that would not have it but for Social Security. It is particularly important to women, who live longer, earn less, take time away from the work force to care for kids, and have less pension and asset income than men do. Social Security's lifetime inflation adjusted benefits, spousal and survivor benefits, and progressive benefit formula provide critical protection for women, and without Social Security, more than half of elderly women—more than half—would actually live in poverty in their senior years.

Ms. Janis, who will testify today, will share her perspective about the importance of Social Security and how it has affected her life.

Although Social Security has successfully provided an effective safety net for two-thirds of a century, Social Security is facing serious financial challenges. Beginning in 2016, payroll taxes will not be enough to cover promised benefit payments and Social Security will have to tap the trust fund in order to continue full benefit payments. In 2038, the trust fund will be exhausted and the payroll taxes taken out of the hard-earned wages of our working kids and grandkids will only be enough to cover 73 percent of the benefits and even less than that in the future years.

If we fail to enact a plan to save Social Security, the consequences will be devastating for millions of Americans, especially devastating for women. For these reasons, restoring Social Security's solvency for the 21st century and beyond is a national priority for the public, for the Congress, and for this President. We need to set aside politics and demagoguery and get down to the business of saving Social Security.

Our focus today, however, is to find common ground in advance of major reform to begin improving the program by enhancing Social Security benefits for women, assuring seniors that promised benefits will be paid, and better educating the American people. I would like to repeat the first part of that sentence. Our focus today is to find common ground in advance of major reform.

There are numerous proposals for improving women's benefits, and while such proposals will cost tens of billions of dollars and increase the threat of insolvency, there are some inequities in the program that could be addressed now without jeopardizing the financial position of the trust fund. I believe that women should not have to wait for comprehensive reform for us to make some helpful changes. Today, we will hear from several experts who will offer opinions for us to explore.

As we look to ways to improve Social Security for women, we must also assure seniors that strengthening Social Security does not mean weakening their economic security, and we must educate the public about Social Security's financial future. Conflicting facts reported in the print media and on television have made our job most difficult. It has fueled seniors' concerns that cuts to their benefits are imminent, despite commitments by the House of Representatives and by this President that their benefits will not be touched.

Today, we will hear ideas on how to express the commitment to preserve seniors' full benefits and how to improve information provided to the public in the Social Security Statements and the Trustees' Reports. I hope areas of agreement, such as improving women's benefits, will form the foundation for the kind of bipartisan partnership we will need to save Social Security. The Subcommittee has a history of working on a bipartisan basis to change people's lives by removing barriers so individuals with disabilities can return to work, removing the earnings penalties for seniors, and combating waste, fraud, and abuse. I hope we continue in that spirit to build on our past successes and reasonably address ways to strengthen Social Security for the next generation.

I now yield to the gentleman from California, Mr. Matsui.

[The opening statement of Chairman Shaw follows:]

Opening Statement of Hon. E. Clay Shaw, Jr., a Representative in Congress from the State of Florida, and Chairman, Subcommittee on Social Security

Welcome. Strengthening Social Security is a goal of everyone in this room. It is an important program that provides income security to nearly 46 million Americans.

And, it is particularly important to women who live longer, earn less, take time away from the workforce to care for kids, and have less pension and asset income than men. Social Security's lifetime-inflation adjusted benefits, spouse and survivor benefits, and progressive benefit formula provide critical protections for women. And without Social Security, more than half of elderly women would live in poverty. Mrs. Janis, who will testify today, will share her perspective about the importance of Social Security in her life.

Although Social Security has successfully provided an effective safety net for two-thirds of a century, Social Security is facing serious financial challenges. Beginning in 2016, payroll taxes won't be enough to cover promised benefit payments, and Social Security will have to tap the Trust Fund to continue full benefit payments.

By 2038, the Trust Fund will be exhausted, and the payroll taxes taken out of the wages of our hard-working kids and grandkids will only be enough to cover 73% of benefits, and even less than that in future years. If we fail to enact a plan to save Social Security, the consequences would be devastating for millions of Americans, especially women.

For these reasons, restoring Social Security's solvency for the 21st century and beyond is a national priority for the public, Congress, and the President. We need to set aside politics and demagoguery and get down to the business of saving Social Security.

Our focus today however, is to find common ground, in advance of major reform, to begin improving the program by enhancing Social Security benefits for women, assuring seniors that promised benefits will be paid, and better educating the public.

There are numerous proposals for improving women's benefits, and while some proposals would cost tens of billions of dollars and increase the threat of insolvency, there are some inequities in the program that could be addressed now without jeopardizing the financial position of the Trust Funds. I believe women should not have to wait for comprehensive reform for us to make helpful changes. Today we will hear from several experts who will offer options for us to explore.

As we look at ways to improve Social Security for women, we must also assure seniors that strengthening Social Security does not mean weakening their economic security, and we must educate the public about Social Security's financial future.

Conflicting facts reported in print media and television has made our job difficult. It has fueled seniors' concerns that cuts to their benefits are imminent, despite commitments by the House of Representatives and the President that their benefits will not be touched.

Today, we will hear ideas on how to express the commitment to preserve seniors' full benefits and how to improve information provided to the public in the Social Security Statement and the Trustees Report.

I hope areas of agreement, such as improving women's benefits, will form the foundation for the kind of bipartisan partnership we'll need to save Social Security.

This Subcommittee has a history of working on a bipartisan basis to change people's lives—by removing barriers so that individuals with disability could return to work, removing the earnings penalty for seniors, and combating waste, fraud and abuse. I hope we can continue in that spirit, build on our past successes, and responsibly address ways to strengthen Social Security for the next generation.

Mr. MATSUI. I thank the gentleman from Florida, the Chairman of the Subcommittee. I appreciate the fact that he is holding this hearing.

I might, first of all, just point out that—and I appreciate the gentleman's remarks. I think working in a bipartisan fashion is critical and obviously it is very important because this is a very serious issue, one that undoubtedly all of us as Americans must really attempt to deal with in a very comprehensive way.

My concern at the outset of this hearing is the fact that it seems to have changed its character. I knew we were going to talk about older women, and I think we should. It is a very major issue. On the other hand, up until about 7:00 p.m. last night, we did have 3 witnesses on the Chairman's side of the aisle, 2 of which were going to discuss the so-called certificates of guarantee, and we had 10 Democratic witnesses that were planning on testifying, and I know we are out of session now and as a result of that, there was some desire perhaps to expedite the hearing, and so the Chair suggested that the 13 witnesses, 10 Democratic witnesses and 3 Republican witnesses, not actually appear, and certainly that is understandable, particularly if they can come at some future time.

But there is no question that the issue of the certificate of guarantees was on the table. In fact, I had written to Secretary O'Neill just 3 days ago suggesting that he have a position at the hearing, and perhaps Ms. Barnhart will be able to discuss that during her testimony. But the fact of the matter is that we understand that the certificate will probably be coming up sometime soon. I know that the Majority Leader, Mr. Armey, had talked about it. There has been some discussion that perhaps it could come up on the suspension calendar sometime in the next week or so.

As a result of that, I think we do need to talk about this, because just as we had the lockbox, now we have a certificate of guarantee. We do need to really flesh out some of these issues. I think this is a very serious issue, and we do not want to handle it in a way that perhaps is treating it rather cavalierly and so I think we need to talk about it.

I did get a Congressional Research Service (CRS) report and analyze Mr. DeMint's bill. They said it would confer no additional property rights nor contractual rights on anyone who receives these certificates, and so I guess the certificates will be about as valuable as the piece of paper they might be sent on. The intent of the DeMint legislation is to send it out to every recipient who is receiving Social Security at this time, guaranteeing their benefits for some indefinite future, and then any new recipient who goes on the rolls would also receive such a certificate. Mr. Armey really wants to do this badly because he thinks it is very important.

I would treat this a little, Mr. Chairman, like the lockbox. We passed the lockbox, signed by the President on three separate occasions, locking up the surplus of Social Security. Now we invaded that lockbox. I might just show the consequences of that lockbox and what has happened over the last 14 months or so.

When Mr. Clinton was President, we actually put that surplus to use by reducing the debt, and now we are invading the Social Security surplus in a rather substantial way, as the right-hand orange column will show. We are deeply into the Social Security surplus and the consequences of that is the next chart, if the gentleman will show the next chart.

Essentially, families that are making $30,000 a year, their payroll taxes are going into the so-called Social Security Trust Fund. The first stimulus package that the Republicans passed last year would have provided Enron Corp. with $254-million immediate tax relief by retroactively applying 16 years the alternative minimum tax, and that would have meant, had Mr. Daschle not stopped it— he is being criticized for stopping all these wonderful pieces of legislation, but had Mr. Daschle not stopped that legislation on the Senate side, then it would have taken, believe it or not, 130,000 families making $30,000 a year, their payroll tax money, their hard-earned payroll tax money that they thought was going into Social Security would have been just enough to pay for the $254-million tax cut for Enron Corp.. That is one of the consequences of breaking the so-called lockbox and invading the Social Security surplus.

It is my hope, Mr. Chairman, because we really should not be spending our time with certificates and lockboxes and things of that nature, we should put the President's three proposals that were part of the Social Security Commission and put that in legislative language, Mr. Chairman, and then let us vote on those proposals that the President has presented. Let us vote on Mr. Armey's proposal that he is now touting as a very significant piece of legislation. I think it is important that we do real substantive work rather than tinker around with certificates that have no property rights or legal rights or contractual rights.

I welcome these hearings. On the other hand, it is my hope that we really get into real issues rather than paper and lockboxes that no one on your side of the aisle had intended to keep.

Let me conclude that if you do bring up the certificate of guarantee for every Social Security recipient, Mr. Chairman, I hope it is not put on the suspension calendar. I hope that you allow a full debate and offer amendments on the Floor so that we can really have an opportunity to talk about this. The mere fact that 10 of my colleagues on the Democratic side wanted to actually testify today on this issue indicates the interest that we in Congress have.

I really welcome Mr. Armey's desire to debate this whole issue in the 2002 election—and it is his idea, not mine—because I think the American public has to be involved. The President has said that as soon as these mid-term elections are over, he is going to move on privatizing Social Security, and I think we have an absolute right and obligation as Members of the Congress representing 260 million Americans to debate this issue so that when the decisions are being made in 2003, at least the American public will know exactly what we are doing and why we are doing it.

Chairman SHAW. I would like to re-read two paragraphs of my opening statement. Our focus today, however, is to find common ground in advance of major reform to begin improving the program by enhancing Social Security benefits for women, assuring seniors that promised benefits will be paid, and better educating the public. This Subcommittee has a history of working on a bipartisan basis to change people's lives by removing barriers so that individuals with disabilities could return to work, removing the earnings penalties for seniors, and combating waste, fraud, and abuse.

Now, the reason, and I would like to say this for the benefit of everybody here, there were 10 witnesses on the other side, and I am really looking forward to the Democratic witnesses because I am sure that there must be one of them out there that has a plan to save Social Security, and I am looking forward to them bringing that plan to this Subcommittee where we can have open and thorough discussion of it. Because of that and because so many Members will be leaving today because the House is through voting for the entire week, I have set Wednesday aside so that we can come in and hear from the Members.

Also, just one comment with regard to the lockbox. It was never signed into law by the President because it was filibustered in the Senate by Mr. Daschle. Now, I think that all of us like to talk about the lockbox, but I think it is also important to say that even if it had become law, there were two important exceptions in that. One was the fact that if we went to war, the lockbox no longer would apply, or in the case of economic problems, and we certainly have a double-header going here today.

Ms. Barnhart, I would like to——

Mr. MATSUI. If I may, Mr. Chairman——

Chairman SHAW. Yes.

Mr. MATSUI. Just to make a point of clarification, on the 25th of February, just 3 days ago, we received from your staff a tentative witness list and Mr. DeMint, it says, will endorse certificate legislation in his testimony, sponsor of H.R. 3135, and then——

Chairman SHAW. And I am sure he is going to be here Wednesday, just as——

Mr. MATSUI. No, I understand that, but all of a sudden, since 7:00 last night, now we are talking about another issue. I mean——

Chairman SHAW. No, at 7:00 last night, I offered to come in early this morning and have all of these witnesses by starting the hearing earlier, and as an accommodation to you, we decided to put the thing over until next week.

Mr. MATSUI. No, that is fine. We have no problem with that. But I think what we are talking about here is the subject of the hearing, and there is no question——

Chairman SHAW. Well, this hearing will be continued——

Mr. MATSUI. The subject of this hearing was going to be on the whole issue of the certificates of guarantee. I do not know what changed your mind. It is wonderful that you have, because I do not think they mean anything, but the fact of the matter is that some witnesses may want to talk about this.

Chairman SHAW. Well, I do not know what I changed my mind on, but I am hopeful that we will have a constructive hearing this morning and that we can try to depoliticize this issue, at least long enough to save Social Security for our kids and our grandkids and not get bogged down on this.

I would like to welcome the new Commissioner of Social Security. This will be her first appearance before this Subcommittee, and I hope you will have a favorable impression of us. We are expecting great things from you, and believe it or not, despite some of the rhetoric that you have heard already this morning, we do try to work together on important issues, and we recognize the importance of the work that is before you. We are certainly looking forward to your testimony. Welcome.

STATEMENT OF THE HON. JO ANNE B. BARNHART, COMMISSIONER, SOCIAL SECURITY ADMINISTRATION

Ms. BARNHART. Thank you very much, Mr. Chairman. Mr. Chairman, Congressman Matsui, and Members of the Subcommittee, I thank you for this opportunity to speak with you today on some important issues.

We are now preparing for a national discussion about how to ensure that the Social Security system is financially sound when today's younger workers are ready to retire, but there are also some short-term topics to address. One is the importance of Social Security to women.

The Social Security benefit formula has been structured to provide a higher replacement rate to low earners since the program's inception in 1935. And this feature is particularly important for women, who tend to have shorter careers and to earn less, on average, than men. Also, because women tend to live longer than men, Social Security's automatic cost-of-living adjustments, or COLAs, can be vital for maintaining purchasing power for women. For example, a $100 monthly payment that began in 1975 would today be $347.

Social Security benefits for family Members of retired, disabled, and deceased workers also can be especially important for women. Women are more likely than men to receive spouses' or widows' benefits because their lower earnings often mean that their benefits as a spouse or a widow are higher than the workers' benefits that they would receive based on their own earnings record.

Divorced women also benefit greatly from Social Security protection. Today, a woman who was in a marriage that lasted at least 10 years could be entitled to retirement benefits based on her ex-spouse's work record. Before Congress changed this provision in 1977, 20 years of marriage were needed.

Today, consideration is being given to possible incremental changes that would affect women. Some changes would affect larger groups of women and have a high cost. Other changes would be targeted to more limited groups and have smaller costs. I believe that any high-cost proposal should be considered in the context of comprehensive program reform. Given that the Social Security program is not in long-range actuarial balance, it seems appropriate that significant changes to the program should be evaluated when we are considering other elements in the future modernization of Social Security.

But lower-cost proposals could be targeted to relatively small groups, and for the most part, proposals for incremental change are well targeted to address concerns of small groups of people, most of them women. For the women affected, these changes could make a substantial difference in their economic security. I would like to give you just one example of such a situation, if I may.

One such proposal would address the requirement for disabled widow or widowers' benefits. The law as enacted in 1968 states that a disability must occur no later than 7 years after the workers' death or after a surviving spouse child and care benefits were payable. The intention was to provide disability protection for widowers or widows until they have a reasonable opportunity to earn disability protection on their own. However, sometimes now a worker who is disabled after age 50 may actually need to work up to 10 years in order to be fully insured, so that would argue for lengthening or eliminating the time period.

This is only one example. We would be glad to work with the Subcommittee as you consider such proposals that would improve the protection afforded women under Social Security.

Another issue I would like to discuss is the Social Security statement. As you know, the statement gives estimates of Social Security retirement, disability, and survivor benefits that workers and their families could be eligible to receive. The statement also provides information about Social Security's future financing, and it points out changes that will be needed. It is not easy to communicate complicated financial information to a diverse public in a way that is understandable, but Social Security has worked hard to ensure that the Social Security statement does that.

During my confirmation process, the issue of the statement came up time and again. Members from both sides of the aisle asked about my plans for the statement, and I consistently stated my intention and my firm belief that I would ensure that the statements serve as a factual document for use in individuals' financial planning for the future.

I am in the process now of reviewing the current statement, and I do expect to make some revisions in content, but I would like today to repeat my commitment to ensure that it is a factual document about how the program operates, how the program is funded, and the level of benefits that the individual receiving the statement can expect to receive.

Although reasonable people can disagree about how best to restore Social Security's long-term solvency, I do believe there is clear agreement that benefits of current beneficiaries are to be preserved and protected. Indeed, in President Bush's principles for reform, his very first principle is that modernization must not change Social Security benefits for retirees and near-retirees.

I understand the motivation of many Members of Congress to give current Social Security beneficiaries a written reassurance that they will continue to receive their full benefits. However, I believe I would not be doing my job as Commissioner if I did not raise what I consider to be valid and real concerns.

For example, would such a written reassurance be legally binding on future Congresses and would it require the government to use general revenue transfers to fill such assurances when if, absent any action by the Congress, the trust funds become exhausted? Also, I am concerned about possible unintended consequences, such as creating undue alarm, particularly among those who are nearing retirement age but who do not receive a written notice in a given year.

Also, as Commissioner, I must note that sending notices to 46 million beneficiaries would take millions of dollars from administrative funds that could be used in other ways, such as processing claims, working redeterminations, or handling public inquiries, and the experience at Social Security has shown that notices actually generate more workload for our field offices and our toll-free number. At a time that we are struggling to deal with current workloads and maintain a high level of service, this would be an extra workload.

Social Security touches the lives of most Americans. The very range of issues that we are discussing today is really just one indication of the range of circumstances of those who benefit now from Social Security and will continue to benefit in the future.

Mr. Chairman, Mr. Matsui, Members of the Subcommittee, I thank you again for allowing me this opportunity to testify, and I appreciate the opportunity to discuss the issues we have before us today, and I will be happy to try and answer any questions that any of you may have for me.

[The prepared statement of Ms. Barnhart follows:]

Statement of the Hon. Jo Anne Barnhart, Commissioner, Social Security Administration

Mr. Chairman, Members of the Subcommittee: Thank you for giving me this opportunity to speak to you today on a number of important topics. We are embarking on a period of national discussion of how to ensure that the Social Security System is sound for today's younger workers when they are ready to retire. This is a tremendously important and complex challenge. Our topic today is more immediate, concentrating on the short-term.

I would like to begin by outlining for you the importance of Social Security to women and discussing some of the features of Social Security that contribute to their economic well-being.

For over 60 years, Social Security has provided a solid floor of financial protection. It has allowed the great majority of Americans to retire with the dignity that comes from financial independence, without fear of poverty or reliance on others.

I'd like to discuss some of the ways that Social Security helps women that are integral to the program and can and should be preserved in the reform process. One element of Social Security that has proven helpful for women is the Social Security benefit formula. Social Security benefits have been structured to provide a higher replacement rate to low earners since the program's inception in 1935.

This feature is very important to women because women tend to have shorter careers, and, when they do work, earn less than men. Because of the structure of the benefit formula, the benefits for low earners, including many women, replace a larger portion of pre-retirement earnings than the benefits received by higher earners.

Another important feature of the program that should not be overlooked when we think about improvements in retirement income security for women is the automatic cost-of-living adjustments (COLAs), enacted in 1972. Women's greater life expectancy makes COLAs especially important. For example, as a result of COLAs that maintain the purchasing power of benefits, a $100.00 monthly payment that began in 1975 would have increased to $347 today.

A third feature I would like to mention is the benefits Social Security provides to the family members of retired, disabled, and deceased workers. This aspect of the program makes Social Security especially important to women. In addition to a benefit as a retired or disabled worker, women may receive benefits as a spouse or as a widow. Women are more likely to receive spouse's or widow(er)'s benefits than men because their lower earnings often result in them being eligible for higher spouse's or widow(er)'s benefits than the worker's benefits they would receive on their own record.

I would also note that the important spouse's and aged widow's benefits I just mentioned were not part of the Social Security Act of 1935. Rather, they were added to the program in 1939 in recognition of the important role that Social Security could play in providing economic security for women. For this same reason, benefits were subsequently added for divorced wives and for disabled widows.

In addition to adding new groups to the umbrella of Social Security protection, over the years Congress has enacted legislation to increase the level of protection provided under Social Security. For example, there have been significant changes in widow(er)'s benefits, raising the amount of benefits for a widow(er) from 75 percent to as high as 100 percent of the worker's benefit. In addition, in 1983, benefits for disabled widow(er)s were raised from as little as 50 percent of the worker's benefit to 71.5 percent.

Another example of the changing protection for women under Social Security is the protection given to divorced women. After first adding protection for divorced women in 1965, Congress expanded the level of that protection as well. This was done in 1972 by removing the requirement that a divorced wife be dependent upon her husband and in 1977 by decreasing the number of years the couple had to have been married in order for the divorced spouse to qualify for benefits from 20 to 10 years.

Today, consideration is being given to possible incremental changes affecting women. Some changes would affect larger groups of women and have high costs, while others would be targeted at more limited groups and have smaller costs. I believe that any high-cost proposals should be considered in the context of comprehensive reform of the program. Given that the program is not in long-range actuarial balance, it seems appropriate that significant changes to the program should be evaluated only when considering other elements in the future modernization of Social Security.

For the most part, proposals for incremental changes are well targeted to address concerns affecting relatively small groups of people, most of them women. Some deal with time limits in the law that are no longer appropriate or that should allow exceptions. However, for the women affected, these changes would make a substantial difference in their economic security.

For example, one potential change would be to eliminate the requirement for disabled widow(er)'s benefits that the disability must occur no later than 7 years after the worker's death, or after surviving spouse child-in-care benefits were payable.

The 7-year closing date, also enacted in 1968, was intended to provide disability protection for widow(er)s until they have a reasonable opportunity after the worker's death to become insured for disability benefits on their own earnings record. However, now, a worker disabled after age 50 may need more than 7 years of work—up to 10 years depending on his/her age—in order to be fully insured. Thus, the current provision leaves gaps in the protection of some widow(er)s, because the 7-year period may not afford all of them adequate opportunity to qualify for disability benefits based on their own work records.

This is only one example. There are other similar changes that could be made. We would be glad to work with the Committee as you consider these kinds of proposals that would improve the protection afforded under Social Security to women.

Another issue I would like to discuss concerns providing the public with information about Social Security. One of our basic responsibilities to the public is to help Americans understand the value of the Social Security program and its importance to them and their families. I pledge to you that I will continue to improve the quality of the information we provide. 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 to enable Americans to prepare for their long-term financial security.

As you know, the *Statement* 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. The *Statement* also provides information about Social Security's future, pointing out that changes will be needed.

Communicating complicated technical 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 realize there is great interest in the *Statement*. During the confirmation process, I was asked by Members from both sides of the aisle about my plans to improve the *Statement.* I consistently emphasized my intention to ensure that the *Statement* would continue to be a factual document serving as a valuable tool for Americans to plan their retirement.

So let me today reiterate my commitment to ensure that the *Statement* remains a factual document that informs workers about how the program operates and how it is funded. This is important information that the public needs to have from its government. However, I want to be sure that it not unduly alarm those nearing retirement. I am reviewing the current statement and expect to make some revisions in its content.

Although reasonable people can disagree about how best to restore Social Security to a path of long-term solvency, I believe there is clear agreement that the benefits of current beneficiaries are to be preserved and protected. Indeed, President Bush outlined as his very first principle for reform that "Modernization must not change Social Security benefits for retirees and near retirees." As the debate continues about ways to best put Social Security on sound financial footing, it is important to assure today's Social Security beneficiaries that they are not going to be adversely affected by reform proposals that Congress may ultimately enact into law.

I understand the motivation on the part of many Members of Congress to provide a written reassurance to current Social Security beneficiaries that they will continue to receive their full benefits. However, I would not be doing my job if I did not raise some concerns regarding this matter.

For example, would such a written reassurance be legally binding on future Congresses? And would it require the government to use general revenue transfers to pay future Social Security benefits when the trust funds become exhausted if no changes are made? Also, I am concerned about the possible unintended consequence of creating undue alarm among those nearing retirement who do not receive such a written notice.

Further, as administrator of Social Security, I should point out that sending out these notices to 46 million beneficiaries would increase administrative costs by millions of dollars, using valuable administrative funds that could be used in other ways. For example, each million dollars spent for this purpose could be used instead to process claims, work redeterminations, or deal with inquiries. Also, prior experience has shown that sending out notices generates increased workloads for our field offices and our toll-free number—and our field staff is already struggling to deal with the current workloads and still maintain a high level of service.

I know that there are various approaches that are being considered to assure individuals and families currently receiving benefits that they will receive all benefits due under current law, including accurate cost of living increases. Whatever decision Congress makes on this matter, Social Security stands ready to work with you to get the task accomplished.

Mr. Chairman and Members of the Subcommittee, thank you again for inviting me to testify. I will be happy to answer any questions you may have.

Chairman SHAW. Commissioner, I would like to just clear up one thing. Mr. Matsui talked about it and you touched on it in the latter part of your remarks. The Republican Conference has not taken any position with regard to the issue of the certificates. There are some Members that have come up with the idea, and it was a point of discussion. It was never intended to be a major part of the discussion for this particular meeting. I think this particular meeting is really dealing with major things that need to be done that actually will affect the financial well-being of people on Social Security, particularly women.

I would like to also say that if this matter is going to be brought up on suspension any time in the near future, nobody has told me about it, and I am Chairman of the Subcommittee, so I assume that if that decision were going to be made or were in the process, that I would be informed. So we are not spending administrative funds at this particular point.

You spoke of this in your remarks, but I think it is very important that we really underscore it, and that is that the President has said that there shall not be any benefit cuts for those retired or near retirement when it comes to Social Security reform. What is the best way to assure retirees that their benefits will not be cut and what is the Social Security Administration (SSA) doing to assure seniors that their benefits are safe?

Ms. BARNHART. Mr. Chairman, I think that is such an important question, and actually, I think that many of the things that you spoke to in your opening statement speak to that.

I think the first thing is, as we pursue this discussion and the debate about reform for Social Security in the future, it is important that it be factual. As you and Mr. Matsui said, I think bipartisanship is extremely important. And I think, quite frankly, for all of us on all sides, we need to avoid engaging in volatile rhetoric which sometimes causes alarm among senior citizens and most definitely current beneficiaries.

I do appreciate your restatement of the President's principle. It was the first of his principles, that modernization must not change Social Security benefits for retirees or near-retirees, and I would hope that we would continue as an Administration to make that a point of constant reminder as this debate and the discussion about the future of Social Security continues.

Regarding any other overt-type action in terms of reassuring current retirees, I do think that the very fact that the Congress and the administration are working together to solve the future financing issues for the Social Security program will be reassuring to current beneficiaries, not only for themselves but also for future generations, for their children and their grandchildren. I know I am very fortunate to have both of my parents still with me, as well as my in-laws. I have a 13-year-old son. They are much more concerned about what is going to happen when Niles retires than about themselves right now. I do think that if they think he is taken care of, they will not be worrying about themselves. So I think those are important things.

In terms of providing some sort of communication, we do put out a cost-of-living notice to all of our current retirees and beneficiaries every year and that might prove to be an appropriate forum for some sort of reassurance or language, but I would really have to look at that.

Chairman SHAW. You are thinking of your 13-year-old son. I am thinking of my 13 grandchildren.

[Laughter.]

Chairman SHAW. I do not think that number is going to keep up with your son's age as he gets older.

[Laughter.]

Chairman SHAW. But I would like to be able to, working with Mr. Matsui and others, to extend the President's comments, and that is that there will be no benefit cuts for those retirees today or tomorrow, so that your 13-year-old son, who will not be facing retirement for many years, and my 13 grandkids can also be assured that they will have the same Social Security benefits as I will have as a person who is nearing age 65.

I think it is also terribly important for us to recognize, in 14 years, 14 years from now, there will not be enough Federal Insurance Contributions Act (FICA) taxes coming in to pay the benefits and you will be coming to the U.S. Department of the Treasury with your Treasury bills and start cashing them in. You will need to do this in order to keep pace with the benefits that have to be paid in Social Security, and the Congress is going to have to figure out where it is going to get the money in order to redeem these Treasury bills so that you or your successor will continue to pay those particular benefits.

I know you are not going to be out of Treasury bills for 30-some years, but you cannot send Treasury bills to the retirees. You have got to send them cash money. This means, and I look at this as within 14 years, we have got to start planning on how we are going to pay those benefits 14 years from now. Time really moves awfully quickly, and I am really hopeful that we can reach some type of a bipartisan agreement.

This is very similar to when I went through welfare reform. It was not until we got the Democrats aboard that we were able to pass a bill. I Chaired the Human Resources Subcommittee, and we wrote a very good bill and President Clinton came aboard and I think most of the Democrats on this Subcommittee came aboard, and as a result, that has been one of the most successful programs and successful pieces of legislation that we had, and in the end, it was truly bipartisan and the American people had confidence in it and it worked.

The same rule of thumb has got to apply here. The Republicans cannot go it alone in drawing a Social Security reform bill and the Democrats cannot go it alone. We have got to work together to do it, not only because we will get a better product that way, but we will also have the confidence of the American people and the seniors that we have produced a good product. And as you said, we have got to take the political rhetoric out of it and work together in order to get this done.

Mr. Matsui?

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

I appreciate very much your comments, Commissioner, in terms of the whole issue of the certificate because these are the same concerns that many of my colleagues, and I have been raising about it and so I appreciate the fact that you raised a number of different red flag issues about it and perhaps that will slow this process down, because again, I think your observation about unduly alarming the American senior citizen community could be one consequence of that.

I do want to congratulate you, as well, for being Commissioner. We worked together under prior administrations, and I have always enjoyed working with you.

Ms. BARNHART. Thank you very much.

Mr. MATSUI. We are talking about women and senior citizens and obviously the whole issue of income security. Women make, on the average, unfortunately, 70 percent of what the male counterpart makes, is that correct pretty much?

Ms. BARNHART. It is true that women make significantly less than men as a percentage, yes.

Mr. MATSUI. And so over the lifetime of one's earnings, women will accumulate less in one's account if we have privatizing part or all of Social Security, is that a generally correct observation, in terms of the amount of money accumulated, same occupation, same income level, same kinds of jobs?

Ms. BARNHART. I——

Mr. MATSUI. I know it is hard to generalize——

Ms. BARNHART. It is.

Mr. MATSUI. But generally, I think most people would logically say yes to that.

Ms. BARNHART. It is hard to generalize, but today, women definitely have less in pensions. They participate to a lower degree in private pensions. Forty-seven percent of women are in a private pension plan, whereas, for men, the rate of participation in a pension plan is 53 percent.

Mr. MATSUI. Right. It is really astonishing, because when I came to Congress in 1979, women made approximately 60 percent of what the male counterpart made, and now it is only 70 percent, so there was not much progress over the last 20-plus years.

Women, on the average, work 14 years less than their male counterparts. Now, that may change for this coming and current generation of women, but at least historically over the last 30, 40 years or so, because women entered the child-bearing period, women have historically spent more time caring for their elderly parents, both the husband's and theirs, and so they work, on average, at least from a historical pattern, 14 years less than their male counterparts. That also has an impact on the amount of money they would accumulate from private Social Security account, is that correct?

Ms. BARNHART. And it does also, Mr. Matsui, with regard to Social Security today, although there is some adjustment in terms of dropping off the lowest 5 years, and, in fact, some of the proposals on the table to help women deal specifically with the child care situation.

Mr. MATSUI. Right. So women on the front end actually work less and they make less than their male counterparts and so they will have less in their accounts when they are retiring, even though they may be the same age as their male counterparts.

Now, on the other side of it, women live approximately 6 to 8 years longer than men, on average, is that correct?

Ms. BARNHART. Actually, the latest statistics I have on that is that women who today are 65 are expected to live 19.1 years and men are expected to live 15.7 years. Those are the exact numbers, about 4 years.

Mr. MATSUI. Four years, five years?

Ms. BARNHART. Yes.

Mr. MATSUI. Okay. So it is about 4 or 5 years, but women do live longer than men, on average.

Now, in terms of women, if you have private accounts, and I know this is not necessarily an area that you are an expert on because you are administering a program and it is probably better if someone from Treasury or perhaps the U.S. Department of Health and Human Services respond, but when the accounts are accumulated at the end and you begin to receive your income from those accounts, whether you annuitize them or not, I do not know of any accounts like that that are indexed for inflation, is that correct?

Ms. BARNHART. I would not want to mislead the Subcommittee. I mean, you very correctly cited this is not my main area of expertise——

Mr. MATSUI. And I appreciate that——

Ms. BARNHART. And I am really not trying to beg the issue with you, but really, just to be clear about it, I really could not speak to that.

Mr. MATSUI. Right.

Ms. BARNHART. But I would be more than happy to find out, and I would be happy to respond to any of these things in the record on behalf of the Administration, Mr. Matsui.

Mr. MATSUI. And I am not trying to put you on the spot or anything like that because I understand your situation. I do know for a fact, because I checked with a lot of insurance companies and actuaries, that there is no such policy that you can convert a trust account made up of private Social Security accounts and then set those up into an income-bearing account that takes into consideration inflation. It is just too speculative, most of these insurance actuaries say.

And because women live longer, then, the value of their accounts reduce, if they are private accounts, over a period of time of their life more than the average male, is that correct? You cannot answer that.

Ms. BARNHART. I certainly understand basic mathematical concepts. I get where you are going with that.

Mr. MATSUI. The only reason I am raising this is because this is a hearing on women and there are a lot of my colleagues on the other side of the aisle, even the President is talking about privatizing Social Security, and I think we need to come to grips with this issue. We need to talk about this issue and debate it over the next few months until we actually try to address this issue from a legislative perspective, because women will be hurt by privatization because they do not work as long as men, they make less than men, and then, obviously, they live longer and so their accounts will not, obviously, sustain them. If they live 5 years longer, at a 4-percent interest rate, that is a 20-percent reduction in the level of their benefits.

So these hearings are important because we need to talk about these options that are being raised, whether it is privatization or other options that many of my colleagues are talking about now, and there is no question that privatization will do significant damage to women in terms of income security and retirement benefits.

Chairman SHAW. Would the gentleman yield?

Mr. MATSUI. No. Did you want to comment?

Ms. BARNHART. I just want to say one thing, just generally speaking. While I am not an expert on each of the proposals, and there are many, as you know, not only those that the Commission has published in its report but also that Members of Congress have put forth. But it is my understanding that most of the proposals for reform do look at maintaining some of the, I guess I would call them equity establishers for women. I cannot speak to the specifics of those but would be happy to provide that kind of analysis for you for the record if that would be helpful. It is my understanding some of the reform proposals would continue many of the provisions built into Social Security today.

Mr. MATSUI. And let me talk about that, because I have analyzed Mr. Armey's proposal at length, and he has been saying that this is a bold approach. I am sure you have looked at that. Mr. Armey's proposal would require, believe it or not, an infusion of general fund moneys into the Social Security fund of $20 trillion over the next 75 years, $20 trillion. I mean, it is mind boggling. I told that to Mr. Gephardt this morning, and he did not believe me. It also would require the Social Security trust account to actually borrow from the so-called private accounts, and how they get set up, it is a wonder, about $21 trillion.

So I do not know, maybe it is credible, maybe some folks think that that is credible because we are running a deficit now, we are not running surpluses, and even when we had surpluses, it was not in the trillions, $20 trillion. I mean, these proposals are fine, but someone is going to have to tell me how we are going to pay for them. Mr. Shaw has a proposal that will cost $8 trillion——

Chairman SHAW. That sounds like a deal.

Mr. MATSUI. Three-point-six trillion dollars plus loss of interest because it will be borrowing from the equity markets. So someone has to tell us how we are going to pay for it. That is why we need to bring those bills to the Floor and vote on them instead of just talking about them. We need to actually vote on these pieces of legislation. The President's proposal, his three different plans that came from this Commission, all of them require significant cuts, 4 to 6 percent cuts in some benefits in plan two, infusion of $6 trillion worth of general fund moneys. These are not credible plans, and that is why when we talk about them, we have to talk about them with some skepticism.

Ms. BARNHART. If I may just make one point of clarification, and that is that under Commission proposals, as I understand the situation, there are three possible ways to approach solvency.

At this point, where I sit, I do not see any of those as the President's plan specifically. He has, to your point, Mr. Matsui, laid out six principles for reform that do include the establishment of voluntary personal accounts and these Commission approaches are various ways to get there. I look forward, frankly, to providing whatever expertise we can from the Social Security Administration, from our actuaries. As you know, the actuaries do analyses of legislation for you, other Members, as well as for the Commission. Our actuaries, in fact, did a very lengthy analysis that is included as an appendix in the Commission report that speaks to some of the issues you have raised here today in terms of the long-term financing implications. But I look forward to being a part of providing whatever kind of expertise we can to inform that discussion and debate as we move forward to resolve the situation.

Mr. MATSUI. If I may—I am sorry, Mr. Chairman——

Chairman SHAW. You have already exceeded 5 minutes.

Mr. MATSUI. Did you not say that if the President is not embracing these plans, then does he have any other plan to speak of?

Ms. BARNHART. Again, from where I sit, Mr. Matsui, my understanding is the Commission laid out the three different approaches. They are three different models, as they call them. They suggest these are possible approaches that could be used and have called for a year of debate and discussion. My impression is that is what we are doing now. We are starting the debate and discussion. There are a whole range of proposals, including the one from the Chairman and others, that will be looked at and discussed, and that at this point in time, the Administration does not have a specific plan.

Mr. MATSUI. Okay.

Ms. BARNHART. That is the clarification I wanted to make.

Mr. MATSUI. That is extremely helpful, and I really appreciate that because I have been criticized for not having a plan and the President does have one, and so obviously he does not have one and I do not have one, so we are equal.

Chairman SHAW. I do.

[Laughter.]

Mr. MATSUI. Thank you.

Chairman SHAW. I would welcome you aboard. I do want to point out that the Commission did recommend increasing benefits to widows, increasing minimum benefits, and providing for accounts to be equally divided between the spouses upon divorce. The bill that I have out there, which is out there for discussion, and I would welcome such discussion, does increase the women's benefits, and it does protect against all risk and it does guarantee, as much as Congress can guarantee, that the benefits will remain the same, and it does not in any way privatize Social Security. In fact, it leaves it totally intact in its existing state, and we simply add on an added segment to it.

To do nothing and to be without a plan means that the benefits are going to be reduced by over 30 percent or that taxes are going to have to be increased and run a deficit of well over $20 trillion, so I think the math is very simple. Do you spend a little over $3 trillion to solve the problem over a long period of time or do you go in deficit over $21 trillion? Such a deficit would really bring our economy down. Or do you reduce the benefits?

I am totally against reducing the benefits when I know we can solve the problem. The simple math is there. We had, when Social Security started, 40 workers per retiree. Now, we are down to a little over three. Before long, it is going to be over two. You cannot sustain a pay-as-you-go (PAYGO) system with two workers per retiree. It is that simple. Other countries are facing the problem and I hope we do, too.

Mr. JOHNSON. And, by the way, I was very lenient with the Ranking Member. I let him go twice the allotted time. But I am going to enforce the 5-minute rule from this point forward.

Mr. JOHNSON. Are you going to start it over? It is already going.

Chairman SHAW. Yes, I will add your 15 seconds back on.

[Laughter.]

Mr. JOHNSON. I was glad to hear your mortality tables on men and women. I just saw my doctor. He said I was going to be 100. I can hardly wait to get there. You guys are going to really have to foot the bill on Social Security.

You know, back in 1977, Congress created pension offsets. I hear more about that from women in my district than anything else, and the windfall elimination provision. I think they became effective in 1983. Obviously, it is to prevent individuals who have a pension earned outside of Social Security to benefit from the high replacement rates meant for low income. It is a static formula, in my view, and I do not think it is treating people right to make that offset. I wonder if you would comment on that, one, and two, can we work with you to fix it?

Ms. BARNHART. We would certainly be happy to work with the Subcommittee to resolve any technical issues that arise from pursuing this. As I am sure you know, it has changed over time. Originally, the offset under the government pension offset (GPO) was 100 percent of the pension. Now, it is two-thirds. It may well be time to take a look at it, and we would be happy to provide whatever information we can as you consider that provision.

Mr. JOHNSON. Are you looking at anything in that regard?

Ms. BARNHART. At the current time, we are looking at a number of different proposals but we do not have any particular package we are putting forward because we really believe that anything we do that would have a substantial effect on the cost of Social Security needs to be done in the context of reform. I do think that includes the provisions for women as well as anyone else that we would look at for changes for the future.

We already have a situation, as has been pointed out, where the trust funds will be exhausted in 2038. We actually have to begin to use interest from the bonds in 2016. So adding to that long-term financial liability at this point without considering the context of reform is something we would rather not do.

For some of the changes, and particularly for the pension offset, the estimated cost for legislation you all have considered that has been introduced by the Chairman was $7.7 billion over 10 years. I think that is something we would want to update. We want to work with you on providing cost estimates and talk about the implications for the future.

Mr. JOHNSON. Do you think it is fair for a woman who works in another job and earns a retirement and pays into Social Security and considers that a retirement, for her to lose some of her Social Security just because she worked in another job?

Ms. BARNHART. I think that really looking back to the intent of the proposal when it was first enacted, the idea was to treat people who worked in non-covered employment comparably to those who worked in covered employment. As I say, there have been changes made over time.

It is my understanding when Congress originally enacted the offset, it was 100 percent. Then years later, Congress took a look at it and decided that two-thirds of the government pension was approximately equal to a Social Security benefit, which is the reason that was selected, and so it may well be time to take a look at that decision and update those figures from that perspective.

Mr. JOHNSON. But you did not answer my question. Do you think it is fair?

Ms. BARNHART. You know, it is interesting, because I have asked similar questions myself, in all candor, talking with my staff as we looked at some of these provisions just trying to understand the motivation for their original passage and how we continue with them and so forth. I think cases can be made on both sides, quite frankly, because you can also have a situation where someone works just the minimum amount they need to in order to be eligible for a Social Security benefit to augment their pension, and that is where the WEP, or the windfall elimination provision, comes into play.

So I do think we have to look at establishing a balance. I think America is founded on the principle that if you work, you should be rewarded according to the work that you are doing and you should reap the benefits of that work. So from that standpoint, I understand your concern about if you are working, should you not get it. But at the same time, I think we have to look at it from the standpoint of the windfall side, as well.

I think one of the things that I have definitely learned over the years, Mr. Johnson, is that there is absolutely nothing in Social Security that is simple and straightforward and not complex. I would be happy to work with you and your staff on sorting out some of these issues.

Mr. JOHNSON. Thank you, ma'am. Thank you, Mr. Chairman.

Chairman SHAW. Mr. Lewis?

Mr. LEWIS. Yes. Commissioner, the Social Security statement that is being sent out now, you mentioned that there may be some revisions to that statement. What kind of revisions are you talking about?

Ms. BARNHART. Specifically, I have been looking at the statement myself and working on the statement. We are not talking major changes. Let me just start by saying that the kinds of changes I am looking at range from everything from taking the table of contents which is in the lower right-hand corner and moving it up where people can see it easier and referencing the fact that it says—"see what is inside" right now with a little arrow. I want to have, "see what is inside," and then put "your personal information," "your individual information," something that makes people want to open that statement up and look at it and realize that it has things that are specifically relevant to them.

I am also looking at some of the charts that we present in there in terms of the benefits that can be expected, I do think that it is important to say, "under current law," that those are the benefits that would be available under current law so that people are aware of that.

One of the other things is—it is kind of hard to describe it—when you open it up, there is a table on the right, and right now, there is a paragraph where the information related to the fact that Social Security is more than just a retirement program but is, in fact, a disability program as well as a survivor program. I have bulleted that out so that it pops out a little more and makes it clear, as opposed to just kind of all being fuzzed up in one paragraph.

And the final thing is the statement right now includes language that describes the financing situation as we look to the future, about 2016, about 2038, and obviously that is updated depending on the trustees' reports every year, and I am looking at trying to make that clearer. I will tell you, I tried to read the statement from the standpoint of an average person who does not live inside the beltway and does not come to hearings like this and engage in these types of discussions and I ask myself would I really understand what this is telling me, because I do think it is important for people to understand.

At the same time, I am being very careful to make sure that I am not engaging in any kind of rhetoric that would alarm people, because I do think we have a real responsibility, and particularly as Commissioner of Social Security, I have a real responsibility in anything I send out, that my name is signed to, to make it factual, to make it to the point, to serve to reassure appropriately and not unduly alarm people.

Mr. LEWIS. You know, one of the things that I find traveling through the district townhall meetings and so forth is that a lot of the recipients, they do not understand how the system works. They do not understand it is a pay-as-you-go. They think they are paying into a retirement fund that is their fund, it is their account, and they are going to be paid back out of that account. They do not understand that the reason Social Security is in jeopardy is because we do not have 14 people paying into the program now, we only have 3, and that is diminishing very quickly.

I wonder if there has been any polling or any information derived from recipients about how much they understand how the program works.

Ms. BARNHART. We do have an annual performance survey that is done. It is called the Public Understanding Measurement System (PUMS). I have been in this job about 11 weeks now. I was on the Social Security Advisory Board for 4 years prior to coming in, but I just want to clarify, I am still learning about everything in detail.

Mr. LEWIS. Sure.

Ms. BARNHART. The PUMS system does a questionnaire of a statistically valid number of individuals in 52 different jurisdictions and it asks, I think, 14 questions, and if the individuals answer 8 of the 14 questions correctly, then it is considered that they understand about Social Security.

I will tell you, being perfectly honest about the situation, I have started to look at that as a measurement because I am not sure that the 14 questions really get at the intricacies and the issues related to Social Security. I have actually asked my staff to take a look at whether or not we should not augment this to some extent by doing a longer survey with a nationally valid statistical sample that would allow us to probe issues a little more deeply, because quite frankly, I have had similar reactions that you have. I have actually received calls since I was Commissioner with people asking me when they were going to get the check for their husband's remaining Social Security or their father's remaining Social Security because they died shortly after they retired, and I had to explain to them that that was not going to be the case, other than the $255-death benefit. So I understand exactly what you are talking about.

Mr. LEWIS. Thank you.

Chairman SHAW. It would be interesting to send that questionnaire to Congress and see how many of us get it right.

[Laughter.]

Chairman SHAW. Mr. Doggett?

Mr. DOGGETT. Thank you, Mr. Chairman, and thank you, Commissioner. I think there is no doubt that even in your relatively brief service, that you are already having a big impact.

When the House Majority Leader, the leader of all of our Republican colleagues here, comes out in favor of this political gimmick of sending out the certificate to all of those currently receiving Social Security, and it is pretty clear from all the discussions here that there is going to be a major effort to force that through the House perhaps even without an opportunity for us to offer an amendment or discuss it for more than 20 minutes a side, I have no doubt that your candid comments suggesting the problems associated with that certificate, filed in your written testimony and repeated again this morning, contribute to what is obviously a backing down on advancing that very ill-advised proposal.

But I do want to center not on Mr. Armey's history going back to 1984, at least, of antagonism to Social Security, of which this is only the most recent chapter, this whole certificate idea, on one word that you mentioned that comes up again and again. It has come up in questions on both sides this morning, and that is the word "alarm."

You indicate in your testimony that one of your concerns about this ill-advised certificate gimmick is that it would create undue alarm among those nearing retirement who do not receive such a notice. As I understand it, the Armey-DeMint proposal would only have sent the certificates to the people who get a Social Security check now, not someone who is 61 or 60 or as young as I am, at 55, who might be nearing the point of being eligible for Social Security but not actually receiving a check now. Is that your understanding of the proposal?

Ms. BARNHART. That is my understanding of the proposal as introduced, yes.

Mr. DOGGETT. And so it would have provided no guarantee, even as meaningless as the guarantee might have been, to the 60-year-old, the 61-year-old, the 55-year-old. But in focusing on the matter of undue alarm, I want to refer you back to that part of your testimony that refers to the first principle for reform of the Bush program, which is that there is no goal to change Social Security benefits for retirees and near-retirees.

Now, Secretary Thompson has told this Committee in response to questions I asked him that the near-retirees mean people about my age and older, people that are 55 and older, maybe you go as low as the lower 50s. Under the President's principle of reform, he is offering no guarantee of Social Security benefits to anyone not my age. In other words, if you are someone who has been paying in as a worker to Social Security for 20 or 30 years but you do not get up to the near-retiree level, under the principles the President has announced, there is no guarantee whatsoever that you will continue to get your Social Security benefits. In fact, I believe the guarantee is that you will see your benefits cut under those proposals.

If you could put the chart back up, I think the chart showing the problems with the reversal in our progress toward paying down the debt is troubling enough, but one of the specifics that I wanted to ask you about that Mitch Daniels confirmed to our Committee in his testimony is that the President's budget has not included a dollar—as troubling as it is, with the deficits as big as they are projected to be, it has not included $1 for the transition cost of moving to a private system, has it, the budget that we have up before us this year?

Ms. BARNHART. My understanding, quite frankly, as I said to Mr. Matsui earlier, is that at this point, the President has put forth his principles for reform.

Mr. DOGGETT. Right.

Ms. BARNHART. There is no specific proposal.

Mr. DOGGETT. He has not picked which of the three horses he will run with to privatize the system——

Ms. BARNHART. Or——

Mr. DOGGETT. But under all three of them, the transition costs over 10 years have been estimated at somewhere around $1 trillion, and when you look at those charts, Mr. Matsui, as usual, has taken a fairly conservative approach, and he has not included the additional $1 trillion of red that will result from transitioning to any of these proposals.

I understand that the President does not want to pick his plan until after the fall elections are over rather than debating it in advance, but we are talking about a plan under any of these, or under Mr. Shaw's approach, that involves significant transition costs that are going to add even more to that red line and I cannot believe, whether you add those transition costs or you stick just with the conservative chart Mr. Matsui has up there, that our ability to preserve and protect Social Security for your 13-year-old grandchild is strengthened by that kind of approach to deficit spending and not reducing the debt. Thank you.

Chairman SHAW. The time of the gentleman has expired.

You know, it is interesting to look at that chart. I cannot dispute the accuracy of it, but it would certainly be more interesting if you put under it when the Democrats had control of the spending and when the Republicans had control of the spending.

Mr. Hayworth?

Mr. HAYWORTH. Mr. Chairman, I appreciate that. You know, it is kind of interesting to hear the Commissioner talk about the effort to reduce incendiary rhetoric, and I know that some of us here from time to time get a bit impassioned, but it is interesting to see the incendiary rhetoric transferred to the heading of the audio-visuals our friends offer.

I listened with interest to my friends from Texas and from California, and what is interesting, I think, needs amplification and repetition. My friend, the Ranking Member, after going through what he believed to be the deficiencies of the observations and principles the White House has offered, made it clear that he had no plan. My friend from Texas, again hyper-critical of the principles, made it clear there was no plan.

I think we all enjoy debates and rhetorical one-upsmanship, and we can do that, and indeed, there are forums on television to do that, but we are here in Subcommittee today. Perhaps it would be appropriate to try and resist the temptation of street theater and actually try to work together to solve the problem.

Someone once said, it is not a shame that youth is wasted on the young. I guess we could offer the same observation, is it not a shame that policy is always predicated on politics, and yet in a free society, admittedly imperfect but noble in its intent in freedom, there are the inevitable observations.

So perhaps it would be nice, and again, Mr. Chairman, just to point out, as you touched on it, when you as the Chairman of the Subcommittee and the previous Chairman of the Committee on Ways and Means, Mr. Archer of Texas, provided a plan, we reached out to our friends across the aisle, far from the roar of the greasepaint, the smell of the crowd. We sat down and went over some detailed plans and legislation, so plans are there and it would be nice if the minority would proffer a plan so that we can discuss and find consensus to the questions today.

Commissioner Barnhart, thank you for coming and offering your points of view. We appreciate your efforts.

My friend from Texas, Mr. Johnson, touched on the challenges that some women face, indeed, talked about the challenges of pension offset. As we deal with the changing roles of women in society and the changing needs of retirement, are there changes that can be made for the better affecting women that may not have an astronomical cost? Is there some low-hanging fruit and some policy initiatives we ought to study that can be of immediate assistance to women?

Ms. BARNHART. I think there are at least a few things. I could give you a couple of examples. One is, right now, we have a provision that requires that after a divorce, a divorced spouse must wait for 2 years in order to be eligible for benefits if the other spouse has not yet filed for benefits. In cases where the ex-spouse remarries within that 2-year period—the purpose of that 2-year wait, by the way, was to make sure that people were not engaging in so-called "sham" divorces. Sadly, we do have to take care and watch for those situations.

But in the case where the other spouse actually remarries, it is quite clear it is not a sham divorce because they obviously are not going to get married again. They have married someone else. I think that is an example of one of the things that we could do.

Right now, a disabled widow must be at least 50 to apply for benefits. Well, there is nothing magic about 50 being the age at which one can become disabled, and so I do think that you can obviously become disabled at a younger age. I think, certainly as we look to the baby boom population and the disability rolls are expected to increase, or applications for disability, 30 percent in the coming decade, I think that is one that we probably need to take a look at.

We have some examples. Those are a couple. There are some items like that that have so-called negligible or relatively very low costs, but I think if the Subcommittee is so inclined, we could work with you in terms of moving forward.

Mr. HAYWORTH. Commissioner Barnhart, I think that is very encouraging, and let the record show, and again, even given where we are on the calendar and the inherent temptation to play up differences, to put it diplomatically, maybe we can work in this fashion in a non-partisan way to say, Okay, here are some common sense measures where we can find common ground and move immediately to make improvements. It is in that spirit I look forward to working with you and to my colleagues to my left.

Thank you, and thank you, Mr. Chairman.

Chairman SHAW. Thank you. Mr. Becerra?

Mr. BECERRA. Thank you, Mr. Chairman, and Commissioner Barnhart, thank you very much. Congratulations, by the way, and good luck to you as you continue forward.

Ms. BARNHART. Thank you very much.

Mr. BECERRA. Please know that we are very much looking forward to working with you as you move forward.

Ms. BARNHART. I appreciate that.

Mr. BECERRA. I want to first compliment you on your responses to some of the questions, because they are difficult questions that are being asked and sometimes it is not a clear black and white answer. It is tough, and we are probably going to put you on the spot on occasion because we are on the spot, as well, and we are trying to find what the correct answer is, so we appreciate your efforts to try to give us as straight an answer as you can and also one that is also consistent with where we need to go with Social Security.

Let me ask you a bit about the Social Security statement, the contribution statement. You mentioned that you wanted to make sure that whatever information was conveyed was factual. Please comment on the following. As far as I can tell, other than the contribution history of a worker, is there anything else that you can tell me that would be factual information with complete certainty? In other words, other than what they have already given, can we tell them something else that would be 100 percent factual?

Ms. BARNHART. You make a good point. We do include their earnings record, and that is actually one of the primary functions of the statement. I think that is so important as you point that out, because really, it is for people to make adjustments, to look at it and say, these are not the right earnings. That is very——

Mr. BECERRA. An employee may argue that you did not count a particular year's worth or work or something else, but we will know if, indeed, that was there because factually we can determine that.

Ms. BARNHART. Right, and we can make that adjustment prior to retirement, which simply speeds up benefits on the back end, so to speak.

We also provide information about the status of the trust funds, and so I think that needs to be factual, and it is now. As I said, I am just attempting to make it clearer, easier to understand, because it is very tricky describing when interest is going to be used and when trust funds will be exhausted and those kinds of things.

Mr. BECERRA. Let me stop you on that.

Ms. BARNHART. Yes.

Mr. BECERRA. When you say the status of the fund, the trust fund, you are again talking about what we know has come in, where you are talking about hard and fast numbers, factual numbers. You are not talking about speculation here, that we are expecting these amounts to come in. We are expecting to have 130 million workers who will contribute, on average, this amount. You are talking about what did come in from the number of workers that we did have.

Ms. BARNHART. We are actually talking about based on the actuaries' report and the trustees' report, is what we are talking about, which becomes basically the definitive document, put together largely by our actuarial staff and has been extremely accurate over the years. I have asked actually to look at a 25—and 50-year history of the accuracy and they do a superb job of that. It is updated every year, as you know.

And then we do put what you could expect your benefits to be, and that is the place where I thought that I needed to footnote that and cite, "under current law," basically, these are your benefits——

Mr. BECERRA. Correct.

Ms. BARNHART. Because that is the fact. I mean, that is what you are speaking to. I do not want to put a lot of information in the statement that requires so many caveats that it confuses people even further. I want to put what people will be interested in. What someone is going to be interested in knowing, I think, when they are making Social Security contributions is how much they are contributing, what wages it is based on, and what they think they are going to get.

Mr. BECERRA. Based on their past work experience.

Ms. BARNHART. That is right.

Mr. BECERRA. The projection is based on past experience.

Ms. BARNHART. That is exactly right, because we have to flatline out from the current year to the future because we have no basis for assuming that they are going to make more or less.

Mr. BECERRA. Ten years ago when I got here, we were being told that the Social Security Trust Fund would be completely exhausted by about the year 2030 or so, 2032. A few years later, with the economy beginning to churn, we were told, well, 2034, and then we were given a different estimate a year or two later of 2035, and now we are told that 2037 or so. All those estimates are changing because of different economic conditions.

Ms. BARNHART. Right.

Mr. BECERRA. So if we were to put in a statement, you can expect to receive X amount, we are only giving them an expectation. It is not a factual piece of information. You are giving them a projection based on your best actuarial guess.

Ms. BARNHART. And based on current law.

Mr. BECERRA. And as you said, you do not want to alarm seniors, and I think most seniors who are not within the beltway here at these hearings probably would not understand how 1 year the Social Security Trust Fund is going to last until 2030 and another year it is going to last until 2037 and what does that mean for their benefits.

Having said that, can you give me a sense if you agree with the previous statements made by the Social Security Administration, I think 2 years ago when they were here before us testifying on making changes to the Social Security statement, where they agreed with the U.S. General Accounting Office (GAO), our auditing and inspection arm of Congress, wherein they also said that there was no need to make changes to the Social Security statement.

Ms. BARNHART. Well, actually, the General Accounting Office—and I was on the Social Security Advisory Board at that time—my understanding was the GAO, in fact, told Social Security they did need to make the statement simpler than they made it in the beginning——

Mr. BECERRA. Simpler, that is right.

Ms. BARNHART. And they worked to do that, and believe me, that is the primary principle for me—factual, simple, easy to understand. The information related to the trust funds that I am talking about is in there now. It is just a matter of trying to put it in language that is a little easier to understand.

One of the things I should explain is, I do think it is important, too, to construct the statement in such a way so when there are changes, when the trustee report comes out, that those dates, if they change, that that may be inserted in there. In other words, we do not put out all statements once a year, I mean, at one time. We put out statements on a rolling basis, approximately 3 months before the person's birthday. So we have opportunities throughout the year to update if we get better numbers, you know, if we get something that is—for example, when the trustees' report comes out in March, if it makes changes——

Mr. BECERRA. So my statement may look different from someone else's statement, and we will have to figure out why it is that there are differences.

Ms. BARNHART. It might. And that is why people call. I do not know if you were in the room when I made the comment that one of the issues about any notice we put out is that it really increases our workload because people call the 800 number. We estimate that every time we put out a notice to all the beneficiaries, we get about a quarter-of-a-million more phone calls in the weeks immediately following the notice, which adds substantially to our workload, precisely for the reasons, as an example, that you are bringing up now, and then we answer those questions. Whenever we put out a notice, our tele-service center representatives get something that says, this is what we put out so when people call in, you will understand, because that does happen. It absolutely happens.

Chairman SHAW. The time of the gentleman has expired.

Mr. BECERRA. Thank you. Thank you, Mr. Chairman.

Chairman SHAW. Mr. Collins?

Mr. COLLINS. Thank you, Mr. Chairman, and thank you, Commissioner. It is a pleasure to hear you today and have you here.

I am reminded, as I hear a lot of talk here today about the comment that the former Commissioner made at the President's summit on Social Security several years ago, probably 4 or 5 years ago, when he referred to the matter of trust, and it is a matter of trust. It is a matter of lack of trust. The people have a lack of trust in the Congress, and at that time in the administration, to actually address problems that will be facing Social Security in the future and some of the problems they face already. Until we stop some of the rhetoric, we will never be able to gain that trust well enough to actually address the situation.

Some of the rhetoric we always hear is that the Congress, particularly the Republicans, in their budgetary process and in their funding and in their tax provisions are spending the Social Security Trust Funds. Nothing could be further from the truth. As those dollars come in through the payroll taxes, they are credited to the Social Security Trust Fund. Now, you can either leave those funds laying dormant or you can, at the wisdom of the Congress a few years back, invest those into interest-bearing accounts, and that is what happens. We invest them into government securities. They are probably the most responsible security in the world that you can invest in, because we have people all over the world that invest in our securities, so that it can draw interest and increase the amount of funds that are in the trust fund.

Under the benefits structure, as the benefits come due and are needed, securities are redeemed and payments are made. The problem is that we all know that within the next 15 years, we will reach a peak in income versus outgo or cash flow, and we will go into a deficit cash flow, meaning we will be redeeming more securities than we have funds coming in through cash flow.

As I talk to people at home, and I love to talk to seniors about Social Security. I go looking for them. I do not run from the issue. I never have. I have been in the Congress, this is my 10th year. I have been on this Subcommittee, I have been on the Committee on Ways and Means since 1995. When I first came on it, no one really wanted to be on it because it was not a sexy Committee then. But now that we are getting into the situation of the trust funds and the rhetoric over the trust funds and the problems that Social Security faces, it is a fun Committee.

It is one that, as I told President Clinton several years ago, one that I am very interested in because Social Security is my old age pension. I do not belong to a pension program. I have an IRA, and based on the decline in the market, it is worth about 40 percent of what it was 2 years ago. Of course, I have got faith if we can get some people in this town to listen to us and build this economy back, it will more than flourish.

But when I tell people and explain to them, the real problem we are facing with cash flow is today, we have 3.3 workers to 1 beneficiary. As we move forward over the next 3 decades, that is going to change to be two workers to every beneficiary. I joke with young people when they are in the audience with some seniors and tell them, be prepared. I am going to move in with you in a few years because you and your wife will be responsible for me. Jokingly, a young man said, "Are you a good babysitter?" I said, "No, I will be your baby."

But as I talk to people, I tell them, too, there are three age groups that we must look at as we move forward with reform, and reform will have to happen. One, those who are current beneficiaries. Nothing will happen to their benefits. They are there, guaranteed by law. The Social Security law is an entitlement. Then there is my generation, 57, getting close. I hope I make it. There will be no change for my generation. If there is, it will be my option, but I doubt there will even be an option so that we do not frighten people of my generation. But it is the generations behind me, the third age group, that we have to look to and develop a plan that will be a viable plan for them.

And that is the reason that it is so important that we lay down the rhetoric and develop a trust, a trust among ourselves that we can actually openly talk about Social Security, talk about Medicare. As I say, I do not run from either one. I go looking for people to talk to them about it, about both. But until we establish that trust, we will not be able to address the issue.

Transition costs, yes, there will be, and that is the reason it is so important, the sooner we do this, the sooner we put together a program that will be a viable Social Security program and know the costs, the better we all will be.

Certificate of guarantee, we do not need that. The guarantee is in the law today. The guarantee is in the Congress and its willingness to work together to establish trust, establish trust among the people and move forward with reform that will work. Thank you for your work.

Ms. BARNHART. Thank you.

Chairman SHAW. Commissioner, we thank you very much for spending this time with us today. I thank you for testifying before the Committee of the Congress. I think we behaved ourselves rather well on your maiden voyage before this Committee. We appreciate it and we certainly look forward to tapping into your resources, your knowledge of Social Security and your background in order to try to save Social Security, not only to improve it for women and today's beneficiaries but also to try to extend it so that your 13-year-old boy and my 13 grandkids will enjoy the benefits. And also, I would not want Mr. Collins moving in with me.

[Laughter.]

Chairman SHAW. And my kids do not want me moving in with them, I can assure you of that.

[Laughter.]

Chairman SHAW. Thank you very much for being with us. It is an honor to have you.

Ms. BARNHART. Thank you, Mr. Chairman and Mr. Matsui. I have always enjoyed my appearances at the Subcommittee, and I particularly look forward to working with the Subcommittee in my new capacity as Commissioner. Thank you.

Chairman SHAW. Thank you.

Chairman SHAW. The next panel, we do have a rather large panel: Anna Janis, who is a Member of the United Seniors Association; Frank Atwater, who is President of the National Association of Retired Federal Employees; Niesha Wolfe, who is the chief executive officer of Niesha M. Wolfe CPA Firm and Member of the Women Impacting Public Policy in Oklahoma City; Hans Riemer, who is a Senior Policy Advisor at the Institute for America's Future; Nancy Pfotenhauer, who is the President and chief executive officer of the Independent Women's Forum; Joan Entmacher, who is the Vice President and Director, Family Economic Security, National Women's Law Center; and David John, who is a Senior Policy Analyst at the Heritage Foundation.

Welcome, all of you. You may proceed as you see fit. Anyone whose name I have mispronounced, you can correct it. It will appear correctly in the record. We have your written statement. Because of the time problems that we have at this particular time, I am going to strictly enforce the rule, so brevity is appreciated.

Ms. Janis?

STATEMENT OF ANNA JANIS, NATIONAL GRASSROOTS LEADER, UNITED SENIORS ASSOCIATION

Ms. JANIS. I would like to begin by thanking you, Mr. Chairman, for holding this hearing on ways to improve Social Security for women, seniors, and working Americans. As a national Grassroots Leader of United Seniors Association, I commend you for your energetic, constant support in strengthening Social Security. I encourage you in your leadership as Congress considers ways to improve and strengthen Social Security for seniors, our children, and our grandchildren. United Seniors Association stands for uniting the generations for America's future.

My name is Anna Janis. I am retired, and I live in Louisville, Colorado. Mr. Chairman, I am deeply concerned about the future of Social Security after 2016. I rely on my Social Security for 67 percent of my income. The remaining 33 percent is derived from certificate of deposit interest. Since I am in the 65-plus age group, I may not see the day when Social Security pays out more than it takes in. However, I am still concerned about its consequences for my retirement, not only for the financial loss but also the loss of freedom, independence, and control of my destiny.

I must admit that I did not think about Social Security and retirement until I was forced to do so at the age of 51. I am like millions of women who face similar or worse situations. It was necessary for me to enter the job market for the next 14 years until retirement and assume the obligation of a daughter entering college and a son entering high school. I realized that I could meet this commitment and plan for my retirement because the Social Security system was well funded.

Widows and widowers do face a dilemma. Under any fair and rational system, a person who dies after years of contributing to the system would still receive substantial benefits. But the current Social Security system takes just the opposite approach. The death benefits are not enough to even pay for funeral expenses, and then in some cases there are limited survivors' benefits.

My experience has made me very passionate to preserve Social Security, especially to have some peace of mind that I can count on receiving my Social Security check in the future. The need is urgent and must be addressed immediately.

I know that comprehensive reform is going to take some time and should not be rushed into hastily. However, I believe it is time for Congress to give seniors the peace of mind they deserve by giving them a written guarantee for their Social Security benefits. Such a guarantee would reassure beneficiaries without making meaningful reform of the system more difficult or expensive.

I am disheartened that after paying Social Security taxes over my lifetime that I have no legal right to my benefits. Unfortunately, the U.S. Supreme Court ruled in *Fleming v. Nestor* that Americans have no legal right to their Social Security benefits.

I am aware that legislation has been introduced that would provide me with a written guarantee that nothing will jeopardize my Social Security benefits, not just for me but for all the seniors so they will know they can depend on Social Security for their income.

Another problem is those who get divorced. If a wife chooses to be a homemaker, she only qualifies for Social Security if she is married 10 years to a husband who is qualified. While this might have made some sense at one time, it makes no sense today when so many marriages end in divorce. I have heard that the average marriage only lasts about 7 years, 3 years short of the 10 required to qualify for Social Security.

Suppose a young woman gets married shortly after high school, works as a homemaker for 9 years, and gets divorced. Then she works for a few years, and being young, remarries, but in 9 years divorces again. She could easily be in her early forties and still not qualify for Social Security. If she were to become disabled, she would not qualify for disability benefits under Social Security. The situation strikes me as unfair. At the very least, Congress should allow the time a homemaker is married to a worker paying into Social Security to count toward her qualifying time.

All of these problems are exacerbated by the financial crisis facing Social Security. You know that in about 15 years, Social Security will have to start paying out more than it takes in. That makes a lot of older workers and seniors nervous. The biggest disservice to seniors is to do nothing. Facts are facts. Eventually, the trust fund will be exhausted and the income from payroll taxes will only be enough to cover 73 percent of benefits. The problem will continue to get worse. There must be a sustainable plan not only for seniors but for our children and their children.

The only proposal that will assure that Congress does not raid the Social Security surplus is enactment of personal retirement accounts. We must move from the present debt-building system to one that is wealth-building. These accounts could occur in insurance premiums that pay a substantial death benefit rather than the low $255 Social Security actually pays, and the account balance would go to the surviving spouse because he or she would have a private property right to the money. Contributions could be split between the husband and wife, either at the time they are made or in the case of a divorce. Splitting the funds means a homemaker would get her fair share rather than being denigrated to a second-class citizen status.

Chairman SHAW. Your time has expired.

Ms. JANIS. Okay. I just had the conclusion, so that is fine. Thank you, sir.

Chairman SHAW. Thank you.

[The prepared statement of Ms. Janis follows:]

Statement of Anna Janis, National Grassroots Leader, United Seniors Association

I would like to begin by thanking you, Mr. Chairman, for holding a hearing on ways to improve Social Security for women, seniors and working Americans. As a National Grassroots Leader of United Seniors Association, I commend you for your energetic, constant support in strengthening Social Security. I encourage you in your leadership as Congress looks at how to improve and strengthen Social Security for seniors, our children, and our grandchildren. United Seniors Association stands for *Uniting the Generations for America's* Future.™

My name is Anna Janis. I am retired and live in Louisville, Colorado.

Mr. Chairman, I am deeply concerned about the predicted failure of Social Security in 2016. I rely on Social Security for 67 percent of my income; the remaining 33 percent is derived from certificate of deposit interest. Since I am in the 65+ age group, I may not see the day when Social Security pays out more than it takes in. But I am still concerned about its consequences for my retirement, not only for the financial loss but also the loss of freedom, independence and control of my destiny.

I must admit that I did not think about Social Security and retirement until I was forced to at the age of 51. I am like millions of women who face similar or worse situations. It was necessary for me to enter the job market for the next 14 years until retirement and assume the obligation of a daughter entering college and a son entering high school. I realized that I could meet this commitment and plan for my retirement because the Social Security system was well funded.

The Dilemma for Widows/Widowers. Under any fair and rational system, a person who dies after years of contributing to the system would still receive substantial benefits. But the current Social Security system takes just the opposite approach. The death benefits are not enough to even pay for funeral expenses and then you receive very limited survivor's benefits.

My experience has made me very passionate to preserve Social Security. Especially to have some peace of mind that I can count on receiving my Social Security check no matter what. The need is urgent and must be addressed immediately.

I know that comprehensive reform is going to take some time and should not be rushed into hastily. However, I believe it is time for Congress to give seniors the peace of mind they deserve by giving them a written guarantee for their Social Security benefits. Such a guarantee would reassure beneficiaries without making meaningful reform of the system more difficult or expensive.

I am disheartened that after paying Social Security taxes over my lifetime that I have no legal right to my benefits. Unfortunately, the U.S. Supreme Court ruled in *Fleming v. Nestor* (1960) that Americans have no legal right to their Social Security benefits.

I am aware that legislation has been introduced that would provide me with a written guarantee that no matter what, nothing will jeopardize my Social Security benefits. Not just for me but for all seniors so they will know they can depend on Social Security for income they can count on.

The Dilemma for the Divorced. Another problem is those who get divorced. If a wife chooses to be a homemaker, she (and the vast majority making this choice will be women) only qualifies for Social Security if she is married 10 years to a husband who is qualified. While this may have made some sense back in 1935 when Social Security was created, it makes no sense today when so many marriages end in divorce. I have heard that the average marriage only lasts about seven years—three years short of the ten required to qualify for Social Security.

Suppose a young woman gets married shortly after high school, works as a homemaker for nine years and gets divorced. Then she works for a few years and remarries for nine years and divorces again. She could easily be in her early 40s and still not qualify for Social Security. If she were to become disabled, she would not qualify for disability benefits under Social Security. The situation strikes me as completely unfair. At the very least, Congress should allow the time a homemaker is married to a worker paying into Social Security to count toward her qualifying time.

The Dilemma of a Bankrupt System. All of these problems are exacerbated by the financial crisis facing Social Security. All of you know that in about 15 years, Social Security will have to start paying out more than it takes in. That makes a lot of older workers and seniors nervous. Will the system be there for me when I need it? We must have a plan. The biggest disservice to seniors is to do nothing. Facts are facts, eventually the Trust Fund will be exhausted and the income from payroll taxes will only be enough to cover 73 percent of benefits. The problem will continue to get worse, in 2075 there will only be enough income from payroll taxes to cover 67 percent of benefits. There must be a sustainable plan, not only for seniors, but for our children and their children.

Personal Retirement Accounts Would Solve these Problems. The only proposal that will ensure that Congress does not raid the Social Security surplus is enactment of "Personal Retirement Accounts". We must move from the present *debt building* system to one that is *wealth building.* These accounts could include an insurance premium that paid a substantial death benefit rather than the paltry $255 Social Security actually pays. And the account balance would go to the surviving spouse because he or she would have a private property right to the money. Contributions could be split between the husband and wife, either at the time they are made or in the case of a divorce.

Splitting the funds means a homemaker would get her fair share rather than being denigrated to a second-class citizen status.

Conclusion. Mr. Chairman, in light of these problems I have briefly highlighted what I and millions of women face, Congress can act now to greatly lift burdens from the shoulders of senior women across America. While the debate on over-arching reform of Social Security should continue energetically, I believe there are three actions that Congress can take immediately with substantial bipartisan support to very practically help tens of millions of women and men who now face financial hardship and fear.

1. **Pass Social Security Benefits Guarantee Legislation**: Women make up a disproportionate percentage of seniors at or near the poverty level. In extraordinarily high numbers, they depend on Social Security. The fear of losing benefits in the future runs extremely high. Mr. Chairman, I commend you for championing such a significant piece of legislation for a real guarantee of Social Security Benefits for seniors.
2. **Cut taxes on Social Security Benefits**: In 1993, the deciding vote to greatly increase taxes on seniors' Social Security benefits was cast by Vice President Al Gore. Since that year this tax has pulled more and more seniors into its clutches. Women, whose life expectancy is longer than that of men, will be taxed heavily on benefits for which they paid taxes their whole lives.
3. **End the Earnings Limit on Seniors Age 62–64**: Because women often enter retirement with lower average lifetime earnings, their Social Security often must be supplemented. For those women age 62–64 the tax punishment for working even a minimal amount in a year is still extremely heavy. Congress should end all earnings limits and lift this major financial burden from women and men.

Again, Mr. Chairman, thank you for your work on these important issues, and for inviting me to speak today on behalf of United Seniors Association.

Mr. LEWIS. [Presiding.] Mr. Atwater?

STATEMENT OF FRANK G. ATWATER, NATIONAL PRESIDENT AND CHIEF EXECUTIVE OFFICER, NATIONAL ASSOCIATION OF RETIRED FEDERAL EMPLOYEES

Mr. ATWATER. Mr. Chairman, Mr. Matsui, and other Members of the Subcommittee, I am Frank G. Atwater, National President and Chief Executive Officer of the National Association of Retired Federal Employees, NARFE, and I am testifying today on behalf of NARFE's more than 400,000 Members and representing 2.4 million Federal retirees.

I would like to first commend you, Chairman Shaw, for stepping up to the challenge of making serious proposals for reforming Social Security. Although your bill, H.R. 3497, is so comprehensive that there are surely aspects of it that will not be resolved in this Congress, I do agree that we cannot afford to wait any longer to address some changes which have considerable support for reform now.

One of the issues which your bill addresses is the government pension offset, or the GPO. NARFE has long sought to reform this provision of the law which has denied many of our older Members the economic dignity they had been led to expect in retirement.

I, therefore, appreciate your invitation to appear before you today both to reiterate NARFE's support and to urge the Subcommittee's immediate action on reform of the GPO and provisions which would enhance benefits for women and other retirees.

When Social Security was originally enacted in 1935, it provided the same benefits to workers with and without spouses and provided no survivor benefits. In 1939, spousal and survivor benefits were added to provide extra protection to workers with families. But in the past 2 decades, some spouses and survivors have been shortchanged on this "extra protection."

The GPO went into effect in 1983. Since then, it has affected over 340,000 Federal, State, and local retirees. This figure grows by approximately 15,000 each year. The GPO reduces or eliminates the Social Security spousal or survivor benefit to which an affected retiree may be eligible. Two-thirds of the monthly government annuity that a public servant has earned is offset against whatever Social Security spouse or survivor benefit might be payable. By all accounts, the two-thirds is an arbitrary percentage. As such, we believe it can and should be reexamined and relaxed.

Of the approximately 340,000 affected beneficiaries, about 80 percent receive no benefit at all, but I think it is crucial to recognize that almost 70 percent of the 340,000 affected beneficiaries are women.

Mr. Chairman and Members of this Subcommittee, I know, as I am sure many of you do, that the harshness of the current GPO causes both fears and tears among thousands of older retirees. Fears for their financial futures and tears of frustration that Congress has not acted to reform this provision, despite widespread support for doing so.

There are today several bills before Congress that would offer relief to the hundreds of thousands of former teachers, cafeteria workers, postal workers, VA nurses, Social Security employees, and others who worked long and hard to help support their families. In fact, more than 300 Members of this Congress have cosponsored one or more of the pending bills. The Chairman's own Social Security reform bill proposes reducing the current two-thirds offset amount to a one-third offset.

My written testimony cites examples of what this particular change, a one-third offset versus a two-thirds offset, might make in the monthly income of an affected widow. In the interest of time, I will not read those two examples, but I can tell you that this change would help many.

At a hearing before this panel on June 27, 2000, Mrs. Ruth Pickard, a longtime NARFE Member and a constituent of yours, Chairman Shaw, was with me. She spoke of raising her children and working to make ends meet, 24 years with the U.S. Postal Service and 24 years in the private sector. She continues to work today at age 75 because she says she cannot afford to stop. And, she continues to pay Social Security taxes on her wages, but she will never reap the benefits of these taxes.

The current GPO prevents her from getting any spousal benefit because two-thirds of the amount of her Federal annuity totally eliminates that Social Security benefit. She gets her own benefit, but even that is reduced by another offset that we heard about this morning. The windfall elimination provision of the WEP also affects her. Your proposal, Mr. Chairman, with the reduction of a two-thirds to one-third GPO, could quite possibly allow her to receive her spousal Social Security benefit, which could provide her with a higher benefit than she currently receives from her own work.

Although not here with me today, Ruth joins me in thanking you, Mr. Chairman, for realizing the need of GPO reform. Social Security actuaries project that implementation of the one-third GPO provision would increase the size of the Old-Age Survivors and Disability Insurance actuarial deficit by an amount estimated at 0.02 percent of the taxable payroll.

The Social Security system has endured and will continue to endure some serious challenges over the next century. None of us can predict what this program or our economy will be like 75 years from now and probably none of us will be around for that time, either. One thing is certain. Changes are inevitable, and since we know that some of our seniors need help right now, I believe that we must make those changes right now.

In an advisory announcement of this hearing, Chairman Shaw, you stated, "Information about Social Security's benefits and its future is out there, but some question whether such information is sufficient or widely understood. We should begin now to improve women's benefits, reassure seniors that their promised benefits are secured, and better educate Americans about Social Security."

On behalf of the some 400,000 Members of NARFE, Mr. Chairman, I am offering to assist in the effective dissemination of factual information about Social Security and provide this panel and you, sir, with any information that you might need that would help to take care of the GPO. Thank you very much, Mr. Chairman.

Chairman SHAW. [Presiding.] Mr. Atwater, you went over, but you were saying nice things about the Chairman so that is all right.

[Laughter.]

Mr. ATWATER. I had a couple more things to say, Mr. Chairman, but I kept seeing you wanting to tap that.

Chairman SHAW. I was tapping it.

Mr. ATWATER. Thank you very much, sir.

[The prepared statement of Mr. Atwater follows:]

Statement of Frank G. Atwater, National President and Chief Executive Officer, National Association of Retired Federal Employees

Mr. Chairman and Members of the Subcommittee, I am Frank G. Atwater, National President and CEO of the National Association of Retired Federal Employees (NARFE). I am testifying, today, on behalf of the more than 400,000 federal retirees, employees, spouses, and survivors who are NARFE members.

I would first like to commend you, Chairman Shaw, for stepping up to the challenge of making serious proposals for reforming Social Security. Although your bill, HR 3497, is so comprehensive that there are surely aspects of it that will not be resolved in this Congress, I do agree with you that we cannot afford to wait any longer to address some changes which have considerable support for reform now.

One of the issues, which your bill addresses, is the Government Pension Offset (GPO). NARFE has long sought to reform this provision of law which has denied many of our older Members the economic dignity they had been led to expect in retirement. I, therefore, appreciate your invitation to appear here before you today both to reiterate NARFE's support and to urge this Subcommittee's immediate action on reform of the GPO and provisions which would enhance benefits for women and other retirees.

In 1935, when the Social Security Act was originally enacted, it provided the same benefits to workers, with and without spouses, and provided no survivors' benefits. The Social Security Act amendments of 1939 added spousal and survivor benefits to provide extra protection to workers with families. But in the past two decades, some spouses and survivors have been shortchanged on this "extra protection".

The GPO Social Security Act amendment, originally enacted in 1977, went into effect in 1983, and since then has affected over 340,000 federal, state, and local retirees. This figure grows by approximately 15,000 each year. The GPO reduces or eliminates the Social Security spousal or survivor benefit to which an affected retiree may be eligible. Two-thirds of the amount of the monthly government annuity that a public servant has earned, is applied as an offset against whatever Social Security spouse/survivor benefit might be payable. By all accounts, the use of two-thirds of the public retirement income as offset against the social security income is an arbitrary percentage. As such, we believe it can and should be reexamined and relaxed.

Of the approximately 340,000 affected beneficiaries, about 80 percent are fully offset, which translates into no benefit at all. It is worth noting that about 40 percent of the total number of affected beneficiaries are widowed individuals, and roughly 70 percent of that number are fully offset. But I think it is crucial to recognize that almost 70 percent of the 340,000 affected beneficiaries are women.

Mr. Chairman, and Members of this subcommittee, I know—as I'm sure some of you do—that the harshness of the current GPO causes both fears and tears among hundreds of older retirees. Fears for their financial futures, and tears of frustration that Congress has not acted to reform this provision despite widespread support for doing so.

There are today several bills pending before Congress which would offer relief to the hundreds of thousands of former teachers, cafeteria workers, postal workers, VA nurses, social security employees, and others who worked long and hard to help support their families. In fact, more than 300 Members of this 107th Congress have indicated their support for change in the GPO by cosponsoring one or more of the pending bills. The Chairman's own Social Security reform bill proposes reducing the current two-thirds offset amount to a one-third offset.

I'd like to cite examples of what this change might mean to an affected widow.

<u>Example One—Current 2/3 GPO affect</u>*:*

Mary, a widow, retires from her government job with a gross monthly annuity of $900. She is eligible for a Social Security widow's benefit of $600. The combined amounts total $1500. She has not worked under Social Security long enough to qualify on her own account. The $600 Social Security widow's benefit is reduced by two-thirds of the $900 annuity, because of the GPO, which is $600. She gets no Social Security because the $600 is totally eliminated. Her gross monthly widow's benefit is therefore $900 instead of $1500.

<u>Example Two—Proposed 1/3 GPO affect:</u>

Jane, a widow, retires from her government job with a gross monthly annuity of $900. She is eligible for a Social Security widow's benefit of $600. The combined amounts total $1500. She has not worked under Social Security long enough to qualify on her own account. The $600 Social Security widow's benefit is reduced by one-third of the $900 annuity, because of the GPO, which is $300. Combine the $300 Social Security widow's benefit with the annuity and her gross monthly widow's benefit is therefore $1200 instead of $900.

At the June 27, 2000 hearing, on the issue of the Government Pension Offset (GPO), Mrs. Ruth Pickard, a longtime NARFE member and a constituent of yours, Chairman Shaw, was with me. She spoke of raising her children and working to make ends meet, twenty-four (24) years in civil service with the United States Postal Service (USPS) and twenty-four (24) years in the private sector. She continues to work today, at 75 years of age, because she says that she cannot afford to stop. And, she continues to pay social security taxes on her wages, but she will never reap the benefits of her current payments.

The current GPO prevents her from getting her spousal benefit because two-thirds (2⁄3) of the amount of her pension totally eliminates that Social Security benefit. She gets her own benefit, but even that is much less because another offset, the Windfall Elimination Provision (WEP), also affects her. Your proposal, Mr. Chairman, with the reduction from a two-thirds (2⁄3) to a one-third (1⁄3) GPO, could quite possibly allow her to receive her spousal social security benefit, which could provide her with a higher benefit than she currently receives from her own work. She expresses her gratitude to you, Chairman Shaw, for addressing the need for GPO reform in your legislation.

Social Security Administration actuaries have determined that implementation of the one-third (1⁄3) GPO provision would increase the size of the OASDI actuarial deficit by an amount estimated at 0.02 percent of taxable payroll. This amount is not negligible but included in a total Social Security reform package, it will help significantly in alleviating some of the hardships that retired government employees have to endure with the current GPO.

The Social Security system has endured and will continue to endure some serious challenges and concerns over the next century. None of us can predict what this program or our economy will be like seventy-five years from now. Nor will any of us here today be around to know. One thing is certain, some changes are inevitable. And since we know that some of our seniors need help right now, I believe that we must make some changes right now.

In the advisory announcement of this hearing, Chairman Shaw, you stated, "Information about Social Security's benefits and its future is out there, but some question whether such information is sufficient or widely understood. We should begin now to improve women's benefits, reassure seniors that their promised benefits are secured, and better educate Americans about Social Security."

On behalf of the over 400,000 members of the National Association of Retired Federal Employees, I am offering to assist in the effective dissemination of factual information about Social Security, its benefits and it's future. Our association stands ready to use our varied communication resources to better educate and reassure our members and others about Social Security—its benefits, its funding and its future.

Mr. Chairman, again, I thank and commend you and this panel for recognizing the need for change in the GPO and for addressing it as part of this hearing today. We know individuals like Ruth Pickard can't wait until Congress agrees on comprehensive Social Security reform. Towards that end, NARFE urges that today's hearing be used to initiate House action so that GPO and other reforms for women can be enacted before this 107th Congress adjourns.

Chairman SHAW. Ms. Wolfe?

STATEMENT OF NIESHA M. WOLFE, CHIEF EXECUTIVE OFFICER, NIESHA M. WOLFE CPA FIRM, CLARKSVILLE, TENNESSEE, AND MEMBER, WOMEN IMPACTING PUBLIC POLICY, OKLAHOMA CITY, OKLAHOMA

Ms. WOLFE. If I say nice things about you, do I get an extra minute, also?

[Laughter.]

Ms. WOLFE. Good afternoon, Mr. Chairman and Members of the Subcommittee. My name is Niesha Wolfe, and I am the owner of a certified public accounting firm in Clarksville, Tennessee. I am also a Member of WIPP, Women Impacting Public Policy, and today I am presenting testimony on behalf of WIPP's 250,000 Members. WIPP is a bipartisan policy organization that advocates for women in business.

Obviously, the stakes for women in the Social Security reform debate are extremely high. As has been said many times here today, women are more likely to live in poverty during their retirement years than men. Sorry, guys, but I guess we are definitely going to live longer than you all are. I remind my husband about that all the time. And also, too, women are comparatively more likely to rely on Social Security to provide the majority of their retirement income.

Because of time constraints, let me just skip to our proposals and what we recommend. Education, this has been mentioned here before, that is kind of a no brainer. As we visit, the leaders of WIPP visit with women business owners around the country, we realize, like myself, that we are first-generation business owners. And therefore, even though I consider myself learned in this particular area, I realize that so many women business owners, even though we are multi-tasked, we have not educated ourselves on our retirement and Social Security so we do not understand it. So education, I think, is very important.

PRA, personal retirement accounts, we feel definitely that we should be allowed some sort of say-so over these individually directed PRAs. We talked about the cash imbalance in Social Security, so I will not hammer that, but we strongly urge personal accounts versus government direct investment. An account that is modeled after the Thrift Savings Plan would protect property rights over personal account balances in the event of divorce, which we have talked about, and this would result in a level of protection that is greater than that present in the current system. These accounts are safe and easy to manage. They should offer three basic investment choices, a stock index fund, a corporate bond fund, and a government bond fund. Any of these would allow the owner to earn more than what the current Social Security system pays in current taxes.

Thirdly, I cannot say this strongly enough, personally, I can get involved in this one. We strongly oppose an increase in the payroll taxes. I am sure any of you that have owned a business or have friends that own businesses, which probably would include everyone in this room, know that no matter what your bottom line is, you always have to pay payroll taxes. My business also involves helping people get out of those wonderful dreaded penalties and interest because they are one, two, sometimes even a year late paying their Social Security taxes. It is an onerous thing. It is something that we all pay. We do not mind paying it. I think we would be a little bit happier writing that check if we knew we had some personal responsibility and some decision making over that. If we increase the FICA tax, I can personally give you a percentage of my clients that would go out of business. There is no doubt about it.

We need to guarantee a safety net or minimum government benefit for all retirees. It should be very simple to develop a personal retirement account plan that includes a safety net with the same guarantee level of retirement benefits that today Social Security promises. The big difference, and we stated this here many times, is that this reform plan would have assets to meet its obligations, and we have all read the papers in the last couple of months and we know that does not always happen, that we have assets.

Five, preserve the benefits of retirees and near-retirees. This has been said over and over again. We know we are facing a crisis and we need to change this so that we have a savings component of the Social Security system.

Six, we oppose general revenue transfers, which will primarily be income taxes, to Social Security if there are no structural reforms. And last, we do not believe that the government should invest in the stock market.

We are definitely not advocating getting rid of Social Security. We believe that Social Security should be preserved so future generations of women are protected from poverty. A viable Social Security proposal will reduce the projected growth of tax burdens upon future generations, for your 13 grandkids. I do not have any yet. Hopefully, I will have some soon, so it should protect mine, too.

The proposal structure must be fair and equitable with a rate of return that enables the total benefits to equal the total tax contributions.

Thank you so much for allowing me the opportunity to present these ideas to your Subcommittee. The Members of Women Impacting Public Policy stand ready to support any real structural meaningful reform in the system and hope to work with you in the future. Thank you.

[The prepared statement of Ms. Wolfe follows:]

Statement of Niesha M. Wolfe, Chief Executive Officer, Niesha M. Wolfe CPA Firm, Clarksville, Tennessee, and Member, Women Impacting Public Policy, Oklahoma City, Oklahoma

Good morning Mr. Chairman and Members of the Committee. My name is Niesha Wolfe and I am CEO of Niesha M. Wolfe, CPA firm. We specialize in small business accounting and tax services in Clarksville, Tennessee. I am also a member of Women Impacting Pubic Policy (WIPP) and present this testimony in behalf of WIPP's more than 250,000 members. WIPP is a national bi-partisan public policy organization that advocates for and in behalf of women in business, strengthening their sphere of influence in the legislative process of our nation, creating economic opportunities and building bridges and alliances to other small business organizations.

The Center for Women's Business Research, founded as the National Foundation for Women Business Owners (NFWBO) 2002 statistics reflects there are 6.2 million women business owners with majority ownership. These firms employ more than 9.2 million workers (52 percent of those workers being women) and generates more than $1.15 trillion in annual revenues.

One of the most important concerns in the Social Security reform debate pertains to how American women would be affected, both under reforms and under the current system. American women are more likely to live in poverty during their retirement years than are men. Women are also comparatively more likely to rely on Social Security to provide the majority of their retirement income. The stakes for women in the Social Security reform debate are extremely high thus, focusing the debate on how women will be impacted is critical.

The problem for small business:

The "three legged stool" of Social Security, personal savings and public and private pension plans is being increasingly threatened. The current "pay as you go" system will become a serious drag on the economy and will limit economic growth if it is not reformed soon. The projected growth in the costs of the Social Security program will crowd out other programs. We are faced with a Social Security system that is unsound, a rapidly aging population and unacceptably low rates of personal savings. We need significant public policy and social responses to these issues.

Social Security and Women:

Apart from questions of the systems solvency, there are various factors that lead to differential treatment of women under the Social Security system.

- Women, on average, live longer than men. On the positive side, this means that women are less likely than men to die before receiving their money's worth from the Social Security retirement program. At the same time, as women live longer, their need for benefits increases, as the chances grow that they will "outlive" their non-Social Security savings.

- Women, on average, have lower lifetime earnings than men. Though less true today than at the time of Social Security's inception, it is still the case that work interruptions and pay-level differentials produce an expectation of lower lifetime earnings for an American woman relative to an American man. Social Security has a progressive benefit structure in which a higher rate of return is paid on low-wage contributions than on high-wage contributions. As women are more likely to have low-wage histories than men, they are thus more likely to receive this slightly higher rate of return—but on a lower level of earnings. With more and more women opening their own businesses, this will begin to change; however, we have a number of years to go before we see what types of changes this will bring to the current system. Women who take time away from employment to raise a family or care for others including parents have shorter working careers and lower lifetime earnings than those who have unbroken careers. Lower lifetime earnings lead to lower long-term contributions to Social Security and pensions and therefore lower benefits in retirement. Numerous studies show women achieving stronger roles and greater importance in the work force. Approximately 75 percent of that work force will pay more in Social Security taxes than they do in income taxes. This leaves them little or nothing to save or invest for their retirement.
- Higher poverty rates for elderly women persist under the current system—with warning signs for tomorrow. Under the current Social Security system, one in five retired women is left in poverty after the death of their spouses.

Poverty among elderly women is highest among widows, divorcees and the never married. The growing number of young women in the latter two categories suggests that many future elderly will miss out on the "social insurance" protections of the current Social Security system. Another key problem facing divorcees, is if the marriage lasted for fewer than 10 years, or if the divorced woman remarries, she may lose all claim to benefits based on her previous marriage. The large increase in divorce rates over the past decades will mean an increased percentage of women entering their elderly years without the income protections that have traditionally been extended to married women and to widows.

Social Security IS very important to women. Maintaining the current system would do little to help them, and in fact, do more to stifle any creation of individual or family wealth. According to The Heritage Foundation:

- In most cases, women receive little benefit from their husband's Social Security after his death. Social Security only pays survivors benefits if there are children under the age of 18, or if the widow receives lower benefits than her husband does.
- If the wife receives either the same monthly Social Security retirement benefit as her husband, or a larger one that he did, all she gets is a $255 death benefit.
- Because Social Security benefits are calculated using a worker's highest 35 years of earnings, women who spend more than a couple years out of the workforce caring for a family receive extremely low benefits.
- Numbers are even worse for African American women. A 60 year old woman living in Chicago's South Side earns the equivalent of only 2.75 percent a year after inflation. Her 35 year old daughter would "earn" less than half that much (1.47), while her 15 year old granddaughter will "earn" just over a third as much as grandmother does (1.01 percent annually). If these women had been able to invest their Social Security taxes half in government bonds and half in stock index funds, they could each have at least $250,000 more for retirement.

Proposed Actions to Address the Social Security Problem:

Congress must stabilize the Social Security system. This may involve reforms in benefit formulas and/or payroll and benefit taxation. Because any reform will impact the current populace and future generations; small and large businesses and the federal budget; in summary our country's entire economic base, each consideration must be carefully analyzed as part of the "whole".

WIPP's members believe the following principles must apply to the reform process:

(1) Education is essential. As in life expectancy, we all want to believe we will live forever. Therefore, we have a tendency to put off writing that will or creating a Trust for our children and thinking about retirement is in that same category.

Women must have access to more financial education pertaining to retirement and where and how Social Security will impact their lives. As the leaders of WIPP visit with women business owners around the country, we realize that they are first generation business owners. They are just now beginning to think about retirement and how they will pay for their financial security. This is not to say that women don't take time to educate themselves about Social Security or that they are not interested. Information about Social Security's benefits and its future are out there but it is not sufficient, it's widely misunderstood, and women simply do not know who to believe about the system. We should begin NOW to improve women's understanding of Financial Security, reassure seniors that their promised benefits are secure and better educate all Americans about Social Security.

(2) Permit workers to invest their retirement payroll taxes (FICA) in individually directed personal retirement accounts (PRA's). The system's "pay as you go" character currently means that large near-term surpluses will be followed by large deficits. These large cash imbalances would need to be addressed by some allocation of tax increases, benefit cuts, or federal borrowing. The smaller the cash imbalances, the less likely that they will be resolved through benefit reductions. Of the competing available means of advance funding Social Security—personal accounts vs. government-directed investment of the Trust Fund is much preferred. Some personal account proposals modeled after the Thrift Savings Plan would protect property rights over personal account balances in the event of divorce, resulting in a level of protection that is greater than that present in the current Social Security system. Also, women would benefit more, proportionally, from features that add to the progressivity of a personal account system, for example through progressive contributions to accounts. Personal retirement accounts are safe and easy to manage. If they were structured similarly to the federal government employees' Thrift Savings Plan, they would offer three basic investment choices: stock index fund, a corporate bond fund and a government bond fund. Any of the three would allow the owner to earn more than what Social Security pays on her current taxes.

(3) Oppose an increase in payroll taxes. FICA is in many cases the largest and most burdensome tax small business owners pay. It's particularly tough because you have to pay it whether you're profitable or not. With a razor-thin profit margin, it can be a matter of survival. If the federal government doesn't structurally reform Social Security and payroll taxes have to increase to keep the benefit checks flowing, it's going to put a lot of small, women-owned companies out of business. One alternative to benefit cuts is simply to raise taxes. Elderly women could simply hope that future congresses will agree to raise effective tax rates to the levels that are necessary to spare them from reductions in their retirement benefits. This is not acceptable.

(4) Guarantee a "safety-net" (minimum government benefit) for all retirees. It should be very simple to develop a personal retirement account plan that includes a safety net with the same guaranteed level of retirement benefits that today's Social Security promises. The difference would be that a reformed plan includes the assets to meet its obligations.

(5) Preserve the benefits of retirees and near retirees. As America's population ages, the ratio of workers to retirees will plummet, and the cost of paying Social Security benefits will rise dramatically under the current "pay as you go" system. For American women, this probably means that tax revenues will be inadequate to fund the benefit promises on which they rely to a greater extent than men. Although there will be a positive Trust Fund balance the next few years, the choices facing Congress will be exactly the same as they would be if there were no Trust Fund at all (because Social Security contains no savings component): cut benefits, raise taxes or increase federal debt. This could leave a significant percentage of benefit promises subject to the results of future political arguments as to whether to resolve cash imbalances through reductions in benefits.

(6) Oppose general revenue transfers (primarily income taxes) to Social Security in the absence of structural reforms.

(7) Oppose government investment in the stock market.

Other ideas to consider:

In the context of a broader reform that creates personal accounts, Congress could begin to address some of the other inequities inherent in our current system—such as increasing the widows benefit and reducing subsidies from working to non-working spouses.

(a) Increase survivor benefits, in order that the surviving partner receives 75% of the total amount of benefits, which the couple received when both were alive. Many of our mothers today are trying to live on 25% less than what they were living on when their spouse was alive.

(b) Reduce subsidies of one-earner couples by two-earner couples and singles. One of Social Security's strengthening features is that it is "family friendly" in providing a substantial benefit for a non-working spouse. The redistribution from two-earner couples from one-earner couples is, however, excessive to the point where couples that cannot afford for one spouse to stay home are effectively subsidizing the benefits of wealthier households. For example, a high-incomed one-earner couple receives a superior rate of return to that of a low-income two-earner couple. Some of these inequities could—and should—be alieviated, without destroying Social Security's basic friendliness to one-earner households. For example, many proposals would improve the targeting of spousal benefits by moving some of the non-working spouse benefit into the widow's benefits. At the very least, no proposal should be adopted that makes the existing inequities worse.

No one is talking about getting rid of Social Security! The problem that we face is preserving Social Security so that future generations of women are protected from poverty. A viable saving Social Security proposal will reduce the projected growth of tax burdens upon future generations. The proposal must be subject to a rate of return analysis that relates total benefits to total tax contributions. We know the problem and must rebuild the structure in a fair and equitable manner.

Thank you for allowing me the opportunity to present these ideas to the Committee. The members of Women Impacting Public Policy stand ready to support real structural, meaningful reform of the system and hope to work with you as you move forward with this initiative.

Chairman SHAW. Thank you, Ms. Wolfe. Mr. Riemer?

STATEMENT OF HANS RIEMER, SENIOR POLICY ANALYST AND DIRECTOR, SOCIAL SECURITY INFORMATION PROJECT, INSTITUTE FOR AMERICA'S FUTURE

Mr. RIEMER. Chairman Shaw and Members of the Subcommittee on behalf of the Institute for America's Future, thank you for the opportunity to testify today.

The Institute for America's Future is a public policy organization focused on the needs of America's working families, and we are firmly opposed to privatizing Social Security, America's most important safety net. Under privatization, a large amount of money would be taken out of Social Security in order to set up investments for younger workers. This drain on Social Security caused by privatization is a dire threat to beneficiaries, both current and future.

In response to this, the House leadership would issue a certificate to current beneficiaries pledging that their benefits will not be cut, but this promise is an empty one and a misleading one, much like the promise made to put the Social Security Trust Fund in a lockbox. Indeed, all Americans have reason to be suspicious of empty promises about Social Security from Congress and the Administration. So far, just about every pledge has been broken.

First, the House leadership has already broken its promise to protect the Social Security Trust Fund and the new budget shreds this promise entirely. Without question, the Nation's pressing needs to respond to the attacks of September 11 reordered our priorities and erased our short-term surplus. But the new White House budget proposes over $600 billion in new tax cuts, $1 trillion when the accounting gimmicks are removed, paid for by draining additional Social Security surpluses over the next 10 years.

In breaking this lockbox, the budget now uses retirement funds to hide mounting debts, an Enron-style accounting practice that must change. It would be generous to say that the new budget proposals fail to address the challenge of the baby boom generation's retirement. In reality, the budget's questionable accounting practices are setting the country up for a wave of fiscal crises.

Second, the promise to protect benefits for current recipients while privatization drains the trust fund does not add up. Privatization would take about $1 trillion out of the trust funds over the next 10 years. This money, however, is actually the reserve fund designed to pay benefits for those currently retired and about to retire, benefits that are also promised to be protected. It is not possible to spend that money twice. Keeping your promise, therefore, requires large surpluses or new revenues, neither of which can be found in the current budget. There is no reason, therefore, to take the promise seriously.

Third, the Bush Commission proposed very large cuts in Social Security benefits and a disguised increase in the retirement age. The Bush Commission's recent proposals for Social Security privatization include very large cuts in guaranteed benefits for today's workers, as much as 40 percent for future retirees. The Commission also proposed a disguised increase in the retirement age, which could delay when workers become eligible for full benefits even beyond 70 years old. The Bush Commission cuts in benefits, it should be noted, affect everyone, even those who do not choose investment accounts, despite promises that changes would be voluntary. Moreover, the Bush Commission proposals, the same large benefit cuts proposed affect disability and survivors' recipients, despite promises to protect them. This is truly an ominous precedent for the future.

Fourth, the Enron debacle illustrates the importance of having a strong safety net in retirement. Investment in private equities is an inherently risky proposition, and for most, it is a necessary one. Very few have access to any sort of defined benefit plan in the private sector. In such an environment, it is even more important than ever to maintain Social Security as a guaranteed benefit. Workers need a strong safety net to fall back on. As the Enron case so dramatically illustrates, 401(k)s are vulnerable to substantial losses. If Social Security were privatized, however, the basic level of guaranteed benefit would not even be enough to keep most workers out of poverty.

The appropriate question for considering the future of Social Security is, what level of guaranteed benefit is necessary in order to enable workers to maintain a decent standard of living as they grow old? In my view, that level is what Social Security currently promises, nothing less. You cannot cut back on Social Security in order to make room for privatization and still have a system that promises workers that after a lifetime of hard work, they will be able to live their quiet years in some dignity.

Fifth, the best recipe for addressing Social Security is still bipartisan dialog. As much as some in the leadership might wish, Social Security reform is unlikely to occur in a divisive, partisan environment. By pushing forward with a narrow agenda and using gimmicks such as the guarantee certificates, advocates of privatization have undermined prospects that all sides will see themselves as participating in a meaningful policy dialog. Yet, it is not too late for the President and the leadership in both the House and the Senate to set aside preconditions and work toward common agreement. Indeed, that is the only way that we will ever see meaningful progress toward strengthening Social Security for the future.

Thank you for the opportunity to present my views today.

[The prepared statement of Mr. Riemer follows:]

Statement of Hans Riemer, Senior Policy Analyst and Director, Social Security Information Project, Institute for America's Future

Chairman Shaw and Members of the Subcommittee on Social Security, on behalf of the Institute for America's Future, thank you for the opportunity to discuss the future of Social Security today.

The Institute for America's Future is a public policy organization focused on the needs of America's working families. At the Institute, I am the director of the Social Security Information Project, which brings together a coalition of groups dedicated to strengthening and protecting Social Security. We are firmly opposed to privatizing Social Security, America's most important safety net.

I have been asked today to address the question of whether Social Security beneficiaries should be mailed "Guarantee Certificates." These certificates are intended to promise current Social Security beneficiaries that their benefits will not be cut under privatization. The sponsors of this proposal are advocates of privatizing Social Security, and they appear to think this "guarantee" is an answer to those who argue that privatization will inevitably entail benefit cuts. They may also be responding to charges that current tax and budget priorities threaten Social Security's promise of secure benefits. It seems to me that this is an important opportunity to raise questions about not only this particular promise, but also privatization generally and other promises that have been made by advocates of Social Security privatization.

The House Leadership's proposal for "Guarantee Certificates" looks more like a direct-mail scam operation targeting seniors than a real effort to improve Social Security.

According to the intermediate estimates from the Social Security Administration, and assuming that nothing is done to improve the system, Social Security benefits can be paid in full until the year 2038. After 2038, if nothing is done, Social Security can pay about 72% of promised benefits throughout the century.

Under privatization, however, a large amount of money would be taken out of Social Security in order to set up investments for younger workers. As I will explain, this drain on the Social Security system caused by privatization represents a dire threat to current beneficiaries.

Presumably as a response to this economic reality, the House Leadership is now proposing to issue a certificate to current Social Security beneficiaries stating that their benefits will not be cut. But this promise is an empty one, much like the promise made to put the Social Security Trust Fund in a "lock box." According to the nonpartisan Congressional Research Service, even if the Guarantee Certificates were mailed out, benefits for current recipients could still be changed at any time. If the so-called "Guarantee Certificates" were to be anything other than a hoax, the legislation would also need to improve Social Security financing so that these benefits could indeed be guaranteed. It does not appear that the House Leadership is proposing to add money to Social Security. Quite the contrary.

The certificates, then, are ill advised—unless the House Leadership wishes to become known as the purveyor of a direct mail scam operation targeting seniors. Some say that the purpose of these certificates is to create political cover for supporters of privatization by making a promise to seniors that privatization will not cut their benefits. If today's seniors are worried about their benefits, they should be—and this blatant effort to mislead them into thinking they are protected raises a giant red flag over the Capitol. Doubtless some will suspect that the only reason they are being provided with a new "guarantee" for their benefits is precisely because some politicians are planning to take these benefits away.

Indeed, if the House does move forward with the "Guarantee Certificates," why should it only provide that guarantee to current Social Security recipients? Why not extend the promises to older workers, baby boomers, Generation X and the Millenials?

Not only seniors, but also all Americans have reason to be suspicious of empty promises about Social Security from Congress and the Administration. So far, just about every pledge has been broken.

The House Leadership has already broken its promise to protect the Social Security Trust Fund. The new budget shreds the promise entirely.

Without question, the nation's pressing needs to respond to the attacks of September 11 reordered our priorities. The recession erased much of the surplus over the short term and after September 11, war and homeland security took precedence.

But the new White House budget proposes over $600 billion in *new* tax cuts—$1 trillion when the accounting gimmicks are removed—paid for by draining *additional* Social Security surpluses over the next ten years.

In his address to the Joint Session of Congress in January of 2001, President Bush stated that his budget protects "the Social Security surplus for Social Security, and for Social Security alone." He stated that his "budget has funded a responsible increase in our ongoing operations. It has funded our nation's important priorities. It has protected Social Security and Medicare. And our surpluses are big enough that there is still money left over." It was on this basis that Congress enacted the tax cut proposal from the "money left over" after Social Security was protected.

It is astounding that Congress would now propose to cut taxes on corporations and the affluent even more, with full knowledge that this does not come from "money left over," but rather comes directly from the Social Security surplus.

In breaking the "lock box," the budget uses retirement funds to hide mounting debts—an Enron-style accounting practice that must change.

It would be generous to say that the new budget proposals fail to address the challenge of the baby boom generation's retirement, which will begin in six years. In reality, the budget's questionable accounting practices are setting the country up for a wave of fiscal crises.

> By adding more than $1 trillion in new tax cuts, mainly for the wealthy, the budget is burdening our country with additional debt for years to come. This is an unfortunate parallel to the way in which Enron executives loaded their company with hidden debt, while giving themselves rich salaries and bonuses.
>
> By not accounting for an adjustment of Alternative Minimum Tax revenues and certain other items, the budget conceals additional, massive liabilities that will have to be addressed eventually.
>
> By using Social Security and Medicare Trust Funds to hide these debts, the budget may be jeopardizing the retirement security of millions of Americans.

If the House Leadership and the White House believe that new tax cuts are necessary—despite the fact that they use additional Social Security surpluses—it would best to advocate for this position while presenting the country with a straightforward accounting of costs.

The promise to protect benefits for current Social Security recipients while privatization drains the Trust Fund does not add up.

The Guarantee Certificates put forward by the House Leadership—as well as the essential promise put forward by the President—to protect current beneficiaries from the impact of privatization, suffers from a basic mathematical problem.

The privatization plans that the Bush Commission has proposed would take about $1 trillion out of the Social Security Trust Funds over the next ten years and use that money to establish privatized accounts. This money, however, is actually the reserve fund that is designed to pay benefits for those currently retired and about to retire—benefits that you have also promised to protect. It is not possible to spend that money twice. Keeping your promise, therefore, requires large surpluses or new revenues—neither of which can be found in your current budget. There is no reason, therefore, to take the promise seriously.

Moreover, the very large cuts in guaranteed Social Security benefits that the Commission admits are required by privatization will be so painful to baby boomers (and those who come after them) that it is unlikely current retirees would be spared. Many observers, including former Social Security administrator Robert Ball, have predicted that if such a plan were to be passed by Congress, even current retirees would be forced to share the pain of benefit reductions.

The Bush Commission proposed very large cuts in Social Security benefits and a disguised increase in the retirement age.

The Bush Commission's recent proposals for Social Security privatization include very large cuts in guaranteed benefits for today's workers, as well as a disguised increase in the retirement age. One proposed cut, accomplished by changing the formula used to calculate initial benefits so that they are indexed to prices rather than wages, would reduce benefits by as much as 40% for future retirees.

Advocates of privatization say that the under "average returns," investment accounts will make up the difference from what workers have lost from Social Security. For a few, it is conceivable, but for many, it is obviously impossible. An "average" return includes both high-return and low-return scenarios. According to the analysis of the Bush Commission's second plan by the Social Security Administration actuaries, an average income retiree who earned low investment returns would face large cuts, even when investment accounts are included, compared to what Social Security current promises: a 16% cut in benefits for a 2032 retiree; a 28% cut for a 2052 retiree; and a 41% cut for a 2075 retiree. These figures, unfortunately, are understated, for reasons I will address below.

The Commission also proposed a disguised increase in the retirement age, which could delay when workers become eligible for full benefits even beyond 70 years old. The Commission proposal would adjust the benefit formula for "life expectancy." This has the same effect as raising the retirement age, because workers would have to work more years to receive the benefits they are expecting to receive today. While the Commission's documents say the actuarial adjustments are designed "to improve work incentives," the incentive is that you are penalized with lower benefits if you do not work longer. Moreover, workers who retire early would face additional benefit cuts. Today, nearly 67% of workers retire early.

The Bush Commission proposed cuts for disability and survivors recipients, despite promises to protect them.

Nearly one-third of all Social Security beneficiaries are workers who have become disabled, and their dependents; as well as widow(er)s and their dependents. In President Bush's executive order establishing his Social Security Commission, and in many related remarks, he stated clearly that the "disability and survivors components" of the program would be "preserved." Yet, despite these promises, the Commission has proposed to cut benefits sharply for these most vulnerable Americans. The changes in the benefit formula, for example, would eventually reduce benefits for survivors and disability recipients by as much as 40 percent. This is truly an ominous precedent for the future.

Protecting these important benefits, however, would have required either substantial new funds, or even deeper reductions in the retirement portion of the program—as much as 25% larger, according to Brookings economist Peter Orszag. Therefore, it would seem likely that the result of privatization would be somewhere in the middle—large cuts in disability and survivors benefits, coupled with even larger cuts in retirement benefits than presently forecasted.

The Bush Commission proposed cuts in benefits for everyone, even those who do not choose investment accounts, despite promises that changes would be "voluntary".

While President Bush, his Commission, and Members of Congress want Americans to think that privatization is voluntary—the President's principles guiding the Commission specify that accounts should be voluntary—the Commission's benefit cuts are most certainly not voluntary. Through mechanisms such as price-indexing and the retirement age change, the Commission proposed deep cuts for all beneficiaries in order to help pay for individual accounts for those who believe they can afford to take the risk of investing their Social Security taxes. Rhetoric about the "voluntary" nature of privatization, therefore, is highly misleading.

The Enron debacle illustrates the importance of having a strong safety net in retirement.

Investing in private equities is an inherently risky proposition—and for most workers, it is a necessary one. Partly as a result of the fact that the government's tax code encourages companies to set up defined contribution plans at the expense of defined benefit plans, individual workers now bear a high degree of risk for generating a secure retirement through personal investments. Very few workers have access to any sort of defined benefit plan in the private sector.

In such an environment, it is more important than ever to maintain Social Security as a guaranteed benefit. Workers need a strong safety net to fall back on. As the Enron case so dramatically illustrates, 401(k)'s are vulnerable to substantial losses. As bad as the situation may be for Enron workers today, it would be even worse if it were not for the fact that they also have Social Security.

If Social Security were privatized, however, the basic level of guaranteed benefit would not even be enough to keep most workers out of poverty. The appropriate question for considering the future of Social Security is: What level of guaranteed benefit is necessary in order to enable workers to maintain a decent standard of living as they grow old? In my view, that level is what Social Security currently promises, nothing less. You can not cut back Social Security in order to make room for privatization and still have a system that promises workers that after a lifetime of hard work, they will be able to live their quiet years in some dignity.

The best recipe for addressing Social Security is still bipartisan dialogue.

It is unfortunate that the President's Commission excluded any representative from the community of organizations representing seniors, women, people of color, people with disabilities, labor, and young people. As much as some in the Leadership might wish, Social Security reform is unlikely to occur in a divisive, partisan environment. By pushing forward with a narrow agenda, advocates of privatization have undermined prospects that all sides will see themselves as participating in a meaningful policy dialogue.

Yet it is not too late for the President, and the leadership in both the House and the Senate, to set aside preconditions and work towards common agreement. Indeed, that is the only way that we will ever see meaningful progress towards strengthening Social Security for future generations.

Thank you for the opportunity to present my views before this distinguished Committee today.

Chairman SHAW. Thank you. I am going to have to leave here, and I am going to turn the gavel over to Mr. Hayworth. I am breaking with my own rules here, but I want to know your definition of privatization.

Mr. RIEMER. Certainly. Privatization is where money that would normally go into the Social Security Trust Fund is invested by workers instead.

Chairman SHAW. Okay. You have no objection if the trust fund is left alone, all the money goes into the trust fund with the Federal government through a refundable tax credit out of its own general fund, investing in individual retirement accounts for American workers without in any way disturbing the trust fund?

Mr. RIEMER. If the accounts are designed to supplement Social Security, I am in favor.

Chairman SHAW. You may be surprised, sir, but you agree with me.

[Laughter.]

Chairman SHAW. Ms. Pfotenhauer, thank you very much.

STATEMENT OF NANCY MITCHELL PFOTENHAUER, PRESIDENT, INDEPENDENT WOMEN'S FORUM

Ms. PFOTENHAUER. Good afternoon. Mr. Chairman, distinguished Members of the Subcommittee, my name is Nancy Mitchell Pfotenhauer, and I am President of the Independent Women's Forum. On behalf of IWF, I would like to thank you for the opportunity to appear before you today and for your attention to this very important issue.

As you know by my submitted testimony, I am an economist by training with 15 years' experience in the U.S. Senate, the White House, and the private sector. My professional and personal interest in this issue dates back to the late 1980s, when I worked for Senator William Armstrong, who had Chaired a Finance Committee bipartisan task force charged with making recommendations to improve the Social Security system at that time. And while the Subcommittee work engaged my mind, it was actually the casework that made its way to me that ignited my passion for this issue.

You are probably aware that most Senate D.C. offices do not deal with very much casework. Most of it is handled back in the State, and it is handled by staff who are closer to the constituents and closer to the problems, so only the really hard cases filter through to the Washington office. And despite a probably overly broad issue portfolio, all of the casework that landed on my lap had to do with Social Security and all of those cases concerned women.

Now, rarely in my professional career have I felt such a profound combination of impotency and despair at my inability to do anything to help these women. Despite tremendous efforts by our office, Senator Moynihan's office, and the good people at the Social Security Administration, we were powerless to solve their problems, so I thank you genuinely for your attention to these issues and your willingness to do something to mitigate the situation facing our elderly poor, specifically women.

We are all aware of the sad story the statistics tell us about the plight of elderly women, so in the interest of time, I will not repeat them here. As you know, women are financially disadvantaged under the Social Security system because we tend to work fewer years, earn less, and live longer than men. Married women, who sacrifice time with their families in order to help meet financial needs, are rewarded by this sacrifice by paying billions of dollars into a Social Security system that will disproportionately undercompensate them because of the dual entitlement rule. And as a married woman who balances the competing pressures of a full-time job with 5 children under the age of 14, let me tell you, this sounds like a pretty bad deal.

Women who have to take time out to care for a child or a sick parent will suffer because this lowers their overall earnings upon which benefits are calculated. If a woman outlives her husband, as she is likely to do, her overall household benefit will fall dramatically, despite the fact that her overall expenses may not. Any woman who works outside the home, as referenced above, by choice or necessity, loses the ability to qualify for both a spousal benefit and an individual benefit despite the fact that she has earned both.

A few things could be done to mitigate these problems relatively quickly. Specifically, the Subcommittee should increase widows' benefits from 100 percent of the deceased workers' benefits to 75 percent of the couples' benefits.

We should allow women with disabilities of any age to qualify for benefits based on the deceased worker's earnings. This helps widows with disabilities who may have insufficient wages to qualify for disability benefits.

Thirdly, we should remove the restriction that forces women who have already gone through the economic and personal dislocation of a divorce to wait 2 years to receive spousal benefits if their spouse remarries.

And finally, we should explore options to mitigate the earnings dip that affects benefit calculations if a woman takes time out of the work force to care for her children.

In closing, the Independent Women's Forum believes that the ultimate answer for women lies in comprehensive reform of the Social Security system. We do not believe any of the problems articulated above occurred through any malintent on the part of the architects of Social Security as we know it today. As such, we think the safest type of reform will allow women to earn their own cash nest egg, assuming there are safety net provisions that protect them. However, we think there is a way to help women now, and we applaud the Subcommittee for taking such steps. Thank you.

[The prepared statement of Ms. Pfotenhauer follows:]

Statement of Nancy Mitchell Pfotenhauer, President, Independent Women's Forum

Mr. Chairman and Members of the Committee, I'd like to thank you for the opportunity to testify today on this important topic. My name is Nancy Pfotenhauer and I am president of the Independent Women's Forum. I am an economist by profession, with experience in the Senate, the White House and the private sector. My first involvement with this issue dates back to the late 1980's, when I had responsibility for staffing Senator William Armstrong on his Finance Committee work pertaining to Social Security. The Senator had co-chaired a bipartisan task force directed at that time to make recommendations on how to improve the current system.

As you know, a strong, vibrant retirement system benefits all Americans, including women, and Social Security is an important part of our nation's multi-pronged effort to provide a safe and comfortable income for seniors. In many ways, the Social Security system has been successful. Poverty rates among the elderly have fallen. The program has been particularly important for women, since they tend to outlive their spouses by a substantial margin.

Today's hearing raises a critically important topic. How can Social Security be improved for Women, Seniors, and Working Americans? The simple answer, of course, is that all Americans—old and young, rich and poor, black and white, male and female—will benefit if lawmakers can strengthen and modernize Social Security so that it is both actuarially sound and capable of providing an adequate level of retirement income.

But the challenge is how to achieve this common goal. This challenge is especially daunting considering the long-run financial problems that plague the Social Security system. Nonetheless, the following principles should guide lawmakers:

- **Current retirees should receive all currently promised benefits—** Simply stated, the government made a contract with these people. Whether this contract was perfect is immaterial; government should not pull the rug out from under people who have fulfilled their side of the bargain.
- **Lawmakers should focus more on long-term stability and less on short-term finances—**Social Security will experience modest surpluses for the next decade, but will suffer enormous deficits once most baby-boomers have retired. But fiscal balances should not be the tail that wags the dog. It is far more important to create a system that is strong and stable, regardless of short-run "transition" issues.
- **International evidence is an important guide—**Fortunately, many nations have engaged in substantial reform to their old age retirement systems. These experiences are a road map for lawmakers. They suggest ways of protecting seniors from poverty, ways of boosting macro-economic performance, and ways of generating more retirement income.

The Challenge

Lawmakers have two important issues that require their attention. First, Social Security has a financing crisis. Cash-flow deficits will appear about 2015 and this shortfall quickly will reach enormous proportions, averaging about 2 percent of annual GDP. The total deficit between 2015 and 2075 is more than $20 trillion—and that is after adjusting for inflation.

But there is another crisis. Retirees are receiving inadequate benefits compared to the money they are paying into the system. This rate-of-return problem worsens over time. People who retired 30 years ago got a good deal from Social Security. But people who retire today are not treated nearly as well when you consider how much more they paid into the system. And younger workers clearly will get a bad deal. Some demographic groups, such as African-Americans and working women, are especially disadvantaged.

Unfortunately, lawmakers who try to solve both of these problems—the financial crisis and the rate-of-return crisis—are bedeviled by a Catch-22. In many cases, policies that would solve one problem have the effect of making the other problem worse. Higher taxes, lower benefits, increases in the retirement age, and COLA adjustments, for instance, all have the potential ability to reduce the program's massive deficit, but each and every one of those policies will have the effect of making Social Security's anemic rate-of-return even worse. Yet proposals to increase the program's rate-of-return—such as cutting payroll tax rates and/or increasing benefits—will simply cause the red ink to occur even sooner.

This is why fundamental reform is the only real answer. Personal retirement accounts are a way of escaping this Catch-22. Shifting to a funded system solves the long term financing problem since workers will be able to use their nest eggs to finance the bulk of their retirement expenses. Personal accounts also solve the rate-of-return problem since the power of compounding will ensure a substantial nest egg after 40–45 years of work. And a fringe benefit of fundamental reform is that the transition costs of moving to such a system are far less than the long-term cost of bailing out the current system.

Today's Issues

Understanding the size and scope of Social Security's problems is critical if we are to accurately judge incremental proposals to improve the system. Today's hearing is designed to explore three specific issues: 1) benefit increases for women; 2) benefit guarantees for seniors; and 3) better information for workers.

The first issue must be taken in the context of the unintentioned, but significant, systematic undercompensation of women inherent in the current system. Here are three examples:

* Women who try to balance the twin stresses of work and home by taking some time out of the workforce to care for young children or an aging parent will suffer because this "time out" lowers their overall earnings upon which benefits are calculated.
* If a married woman makes more than her husband, she is disadvantaged because benefits are based on the difference between her earnings and her spouse's earnings.
* If a woman outlives her husband—as she is likely to do—her overall household benefit will fall dramatically, despite the fact that her overall expenses may not.

As a society, we purport to care about families. If so, we must change our retirement system so that married women who work don't get the short end of the stick. In short, we must change the "dual entitlement rule." A woman who works—by choice or by necessity—outside the home loses her ability to qualify for both a spousal benefit *and* an individual benefit, despite the fact that she has earned both. Again, this is an unintentional consequence—but a serious one that needs to be corrected.

As you know, every married woman, regardless of whether she has ever worked and paid FICA taxes, is eligible for a benefit equal to half of her husband's benefits. Since many working women earn less and are employed fewer years than their husbands, 50% of the spouse's benefits are frequently larger than the benefit calculated on the basis of their own earnings. This means the typical married working woman receives no credit or benefits based on the payroll taxes that she has paid. In the end, this woman receives precisely the same benefit that she would have received if she never had worked outside the home or contributed financially to the Social Security system. Not only do these women sacrifice time with their families, they get no financial recognition of the substantial contributions they've made to the Social Security system.

The most detrimental aspect of the dual entitlement rule, however, is bestowed upon widows who worked to support their families. The Social Security system effectively leaves widows with up to 50% less income than the couple had before the husband died. In fact, by its own estimates, the Social Security Administration reports that 24% of married and widowed women have their benefits slashed by the dual-entitlement rule. By 2040, that number is projected to increase to nearly 40%.

With regards to the second issue, benefit guarantees are symbolically important. As mentioned previously, government should fulfill its contract with senior citizens. But we should be honest about benefit guarantees. No Congress can bind a future Congress. Laws that are passed today can be repealed tomorrow. The only way to create an ironclad guarantee is to actually purchase annuities for retirees that provide the promised level of benefits. But this is probably not a likely option since it would require costs to be recognized today instead of in the future, something that is not feasible because of the current budget process.

Nonetheless, benefit guarantees should be part of the Social Security debate if they are clearly linked to Social Security reform. No serious reform proposal includes any reduction of benefits to current retirees. For both moral reasons and political reasons, reformers have no desire to touch a single penny of the benefits promised to those who played by the rules and paid in to the current system. Benefit guarantee legislation is a way of expressing this intent. But to enact guarantee legislation without reform is a hollow promise.

The third issue before the committee today is critically important. The American people deserve high-quality information about the state of Social Security's finances. The provision of such information will improve the level of public understanding and make it more difficult for demagogues to mislead and scare people. As part of their annual Social Security Statement, workers should be told:

- How much they have paid into the system, including the taxes that their employers paid on their behalf.
- Their estimated monthly benefit based on their earnings history.
- The estimated annualized return, based on a comparison of their total payroll tax burden and their estimated monthly benefit.
- The amount of general fund revenues that will be needed to redeem the bonds in the Trust Fund.
- The amount of promised benefits that can be financed once the Trust Fund is exhausted.

There is surely other important information that could be added. The key goal is making sure the American people have an honest, dispassionate presentation of Social Security's finances. These figures should reveal the program's overall fiscal health, and the figures also should allow workers to determine how the program affects them.

Creating a Stronger System

The issues discussed today are important, but they are no substitute for reform. The only long-run answer is a modern Social Security system with the following features:

1. Allow workers to divert the bulk of their payroll taxes (the World Bank advises at least 5 percent) to individual, defined contribution accounts.
2. The savings should be privately managed with prudential regulation but no government manipulation or direction of funds.
3. All money in personal accounts should be off-limits, with all returns re-invested, until retirement.
4. Upon requirement, at least a portion of the nest egg would be converted into an income stream.
5. Maintain a safety net to ensure that all workers receive at least as much income as the current system provides.
6. To maximize retirement income and ensure no bias against savings, the system should receive IRA treatment.

The International Evidence

As lawmakers consider how best to reform and strengthen Social Security, they should review what has happened in other nations. The actions of other nations demonstrate that personal accounts work, but these experiences also demonstrate that there are several ways to design a new system. Important variables include:

- Level of Mandatory Savings—Some nations, such as Sweden, have "privatized" only a small portion of payroll tax (only 2.5 percent, though there is an additional 2 percent—4 percent of salary that is used to fund an employer-provided pension. Other governments, by contrast, have created fully funded systems. Australia, Hong Kong, and Chile would fall in this category, with mandatory savings levels of about 10 percent.
- Defined Benefit or Defined Contribution—Some governments, such as Switzerland and Holland, utilize defined benefit systems that guarantee a pre-determined payment based on a formula. Others, such as Australia, Hong Kong, and Chile, use a defined contribution system, meaning that benefits are determined by investment performance. Some countries, such as the United Kingdom and Sweden, have a blended system.
- Individual Mandate or Employer Mandate—The decision on who sends the money to a personal account is somewhat meaningless since the money inevitably is a form of employee compensation. And whether the mandate falls on the employer (as in Australia) or the worker (as in Chile), the employer always is responsible for withholding the funds and ensuring that the money is transferred to the fund manager.
- Private Management or Public Management—With a few exceptions, such as Singapore, all nations with personal accounts rely on private fund managers to invest funds.

- Voluntary or Mandatory—Many countries, such as the UK and Chile, allowed workers to choose whether to participate in the new system of personal accounts. Others, such as Hong Kong and Australia, mandated participation.
- Add-On Accounts or Payroll Tax Diversion—Nations with payroll-tax funded retirement systems, such as Sweden, the UK, and Chile, allow workers to finance personal accounts with existing payroll taxes. Nations with no retirement system (Hong Kong) or general revenue-financed retirement systems (Australia) create "add-on" accounts.
- IRA or 401(k) Model—Some nations allow workers to choose fund managers. Chile and Sweden would be examples of this IRS-type model. Other countries rely more on a 401(k)-type approach. In Hong Kong and Australia, for instance, your fund manager is likely determined by your place of work (though workers generally have substantial control of their portfolio).
- Regulation—Most European nations rely on prudential regulation, while Latin American nations tend to impose investment limits on fund managers.
- Taxation—Most nations provide IRA treatment to personal accounts, though Sweden and Australia are exceptions.
- Safety Net—Some governments, such as Hong Kong, have no safety net. The vast majority of governments, however, have substantial safety nets. In many nations, such as Sweden and Australia, it is impossible for workers to retire with less income than they would have received from the old government-run system.
- Transition—This is not an issue for nations with add-on accounts. In nations that allow workers to finance personal accounts with payroll taxes, government borrowing and fiscal restraint are the two most common ways of bridging the transition between a pay-as-you-go and funded systems.
- Income Streams or Lump Sums—Some governments (Hong Kong) have no requirements to use income streams. Others (Australia) strongly encourage income streams through tax law, while others (Sweden) require mandatory annuitization.

Conclusion

Social Security reform is desperately needed to solve Social Security's financial crisis and the program's rate-of-return crisis. But there are some common criticisms of reform. Allow me to close by addressing a few of these topics:

1. **Transition**—Yes, because Social Security is a pay-as-you-go system and a substantial portion of payroll taxes will be diverted to private accounts, we will have to come up with several trillion dollars to pay benefits to current and soon-to-be retirees. Yet reform will save money because this is less than the money—more than $20 trillion—needed to balance current system.
2. **Administrative costs**—No system is likely to have admin costs as low as SS, but no system could produce returns as low as SS. This is a design issue, not a problem. If lawmakers want to minimize admin costs, they could copy Australia's private system, which is like a simple, low-cost, universal 401(k).
3. **The stock market will fall**—Yes, it will, but more often than not, it will rise. Opponents of privatization have some success scaring financial illiterates, but I assume this audience does not need to be told about long-term market returns and the power of compound interest. Suffice to say, that the average, inflation-adjusted return since 1926 is more than 7.5 percent—and that includes the great depression and the crash in October of 1987.
4. **Financial illiteracy**—Yes, there are many workers who do not have knowledge of markets and, yes, there are unscrupulous people who would like to prey on these folks. No one is arguing, however, that there should be no prudential regulation and unlimited ability to self-direct investments. Under every reform plan, professional fund mangers would be in charge of the money.

Thank you again for this opportunity to testify.

Mr. HAYWORTH. [Presiding.] Thank you for your testimony. Ms. Entmacher?

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

Ms. ENTMACHER. Thank you. I appreciate the opportunity to testify before you today on behalf of the National Women's Law Center. There are three issues that were on the agenda for today's hearing: First, the proposal by some in Congress to issue certificates to retirees assuring them that their benefits would be paid; second, proposals by some other Members to send workers a very different message about what they will get from Social Security; and third, ways to increase Social Security benefits for women. All of these issues are intertwined with proposals to privatize Social Security, so my testimony will discuss that, as well.

One of the announced goals for this hearing is to consider ways of "assuring seniors that promised benefits will be paid." Unfortunately, instead of considering steps that really would strengthen Social Security, some Members of Congress would focus on proposals to have the Secretary of the Treasury issue guarantee certificates to retirees. Americans, especially women who rely more than men on Social Security and its unique protections, are increasingly and justifiably concerned about what the administration and some Members of Congress have in mind for Social Security.

Primarily because of the tax cuts passed last year, the promise that this House made right about this time last year of saving Social Security reserves to strengthen Social Security has been broken and will be broken, not just this year nor next year but for all the 10 years in the Administration's forecast. Yet, the Administration and some Members of this House not only refuse to consider delaying the parts of last year's tax cuts that have yet to take effect and benefit only the wealthiest taxpayers, but are proposing to accelerate those tax cuts, make them permanent, and add some new ones.

The proposals to privatize Social Security on top of the tax cuts that have taken up so much of the surplus poses a double threat. Privatization does not strengthen Social Security, it weakens it by diverting money needed to pay promised benefits into private accounts. The plans proposed by the Commission appointed by President Bush to develop a plan to privatize Social Security illustrate the risks that privatization poses for women.

If you look at the two plans that at least purport to move toward long-term solvency, you see that even if you assume that the large revenue transfers are needed are made in those plans, there are very deep cuts in core Social Security benefits. Now that we have the actuaries' analysis of those plans, we can see in more detail.

Under plan two, for those who retire in 2075, core Social Security benefits for low earners would be cut 34.5 percent. For medium, high, and maximum earners, core Social Security benefits would be cut 45.9 percent. A few things to note about those cuts. First, they apply to everyone. Participation in accounts may be voluntary. Participation in the cuts is mandatory.

Point two, everybody means everybody. The Commission said that it would protect the benefits of disabled workers. However, the Commission acknowledged that these reductions in the benefit formula would apply to disabled workers, as well. If those workers were protected, the cuts for retirees would be deeper.

Three, the Commission talked about an improved minimum benefit, but that improvement does not mean they get more than they would get under current law, it means that their benefits are cut a little less, only by 34.5 percent instead of by 45.9 percent. But to be fair, we have to add to those reduced secure Social Security benefits the annuitized value of the private account that workers would get if they invested in a 50-percent equity account and achieved the average return that the actuaries used to project returns. Low earners would get a combined benefit 10 percent lower than current law with their private account. Medium earners would get a combined benefit 20 percent lower than current law. And high earners would get a benefit 25 percent lower than current law, with their private account income and reduced benefit combined. Overall reductions in retirement income would be deeper for couples where the lower earner earned substantially less.

Retirees and their children and grandchildren have reason to be concerned about what privatization would mean for them, and a guarantee certificate that can be changed by a future Congress is not going to reassure them of anything. Such certificates, according to the Congressional Research Service, would be worthless except as something to hang on the wall next to the Enron stock certificate.

The irony is that at the same time as some in Congress are considering mailing these certificates to retirees, there are also proposals that would change the information that is provided to current workers and send a very different message than the certificate sent to retirees. Some bills would require that the statements say that trust fund balances do not consist of real economic assets and contain highly misleading information about rate of return.

I want to say just a couple of words about improvements in benefits for women. There have been a number of improvements discussed that would carry relatively low cost. In addition, an improvement could be made to improve the Social Security benefits of the very poorest elders, most of whom are women, without any cost to the Social Security Trust Fund by increasing the disregard in the Supplemental Security Income (SSI) program under the jurisdiction of the Human Resources Subcommittee. If those Subcommittees can work together, we can achieve a way to immediately get some real relief to beneficiaries by allowing them to keep more than a pitiful $20 a month of their Social Security benefits. Thank you.

[The prepared statement of Ms. Entmacher 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, thank you for the invitation to appear before you today on behalf of the National Women's Law Center.

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. More recently, the Center has participated in efforts to develop proposals to safeguard and improve Social Security benefits for women. For example, Center staff authored a National Academy of Social Insurance issue brief on increasing economic security for elderly women by improving Social Security survivor benefits.

There are three issues being considered at today's hearing which my testimony will address. First, the proposal to issue certificates to retirees assuring them that their benefits will be paid. Second, the proposal to give current workers different information about Social Security than they currently receive through their individual Social Security Statement. Third, ways to increase Social Security benefits for women. Taken together, these proposals convey somewhat contradictory messages to American women, but I will do my best to address all of them.

American Women Need Real Protections for Social Security—Not Paper Guarantees

One of the announced goals of this hearing is to consider ways of "assuring seniors that promised benefits will be paid."[1] Unfortunately, instead of considering steps that really would strengthen Social Security—such as slowing down tax cuts for the wealthiest Americans that raid the Social Security Trust Fund and abandoning plans to privatize Social Security—the focus is on proposals to have the Secretary of the Treasury issue "guarantee certificates" to retirees.

As of last year, current retirees, those near retirement, and younger workers had reason to be confident that Social Security could and would be strengthened for the long term. Even with no changes, Social Security could pay full benefits until 2038, and nearly three-fourths of promised benefits after that. The federal budget was awash in projected surpluses "as far as the eye could see." With a combination of gradual adjustments within Social Security and a fraction of the surplus, it was feasible both to close the long-term financing gap and improve Social Security benefits for women and other low earners.

Then Congress began debating the tax cut proposed by President Bush. Proponents of the tax cut assured the American people that we could have it all—funding for national priorities, funding for contingencies, and a large tax cut—without touching the Social Security and Medicare Trust Funds. To respond to those who raised doubts about the feasibility and wisdom of such a large and long-term tax cut, this month last year this House passed another version of a Social Security "guarantee." H.R. 2, the "Social Security and Medicare Lock-Box Act of 2001," promised the American people that the surpluses of the Social Security and Medicare Hospital Insurance Trust Funds would be reserved for those programs.

It is now obvious that the promise this House made last year of saving Social Security reserves for Social Security has been broken and will be broken, not just this year, but for years to come. Even using some optimistic and unrealistic assumptions,[2] the Administration forecasts on-budget deficits for each of the ten years of its forecast.[3] This means that reserves in the Social Security and Medicare Trust Funds will be tapped to pay for the operations of government—and the tax cut—not just temporarily and in the short term, but for every one of the next 10 years. In less than one year, $4 trillion in projected surpluses over the next 10 years have disappeared, and the single largest reason for the deterioration in the long-term budget picture, according to the Congressional Budget Office, is not the war on terrorism, not increased spending for homeland security, nor the recession, but the tax cut.[4] According to CBO, primarily because of the delayed impact of the tax cuts

[1] Advisory from the Committee on Ways and Means, Subcommittee on Social Security, "Shaw Announces Hearing on Social Security Improvements for Women, Seniors, and Working Americans" (February 21, 2002).

[2] Robert Greenstein, "President's Budget Uses Accounting Devices and Implausible Assumptions to Hide Hundreds of Billions of Dollars in Costs" (Center on Budget and Policy Priorities, February 4, 2002).

[3] *Budget of the U.S. Government, Fiscal Year 2003* (February 4, 2002), Table S–2, at 396.

[4] Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2003–2012* (January 2002), *available* at http://www.cbo.gov/showdoc.cfm?index=3277&sequence=2; Richard Kogan and Robert Greenstein, "The Disappearing Surplus" (Center on Budget and Policy Priorities, December 3, 2001); and Richard Kogan, Robert Greenstein, and Joel Friedman, "The New

passed last year, we'll be dipping into the Trust Fund to the tune of over $900 billion through 2009, even if Congress passes no new tax cuts, no extenders, and no spending above-the-baseline.[5] Even worse, despite polls showing more than 80 percent of the public supports delaying the upper-income tax cuts not yet in effect in order to strengthen Social Security and address other national priorities,[6] the Administration and some Members of this House not only refuse to reconsider delaying last year's tax cuts, despite the broken promise on Social Security, but are proposing to make those tax cuts permanent, accelerate them, and add some new ones. The budget proposed by the Administration would increase the drain on the Social Security Trust Fund to about $1.5 trillion, just over the next 10 years.[7]

The proposals to privatize Social Security on top of the tax cuts pose a double threat to Social Security, and people who are already retired, as well as their children and grandchildren, are rightly concerned. The money to finance private accounts has to come from somewhere. It could come from diverting money within Social Security. But that money is already needed to pay promised benefits, meaning that deep cuts in Social Security benefits would be required to finance private accounts.

The Commission appointed by President Bush to develop a plan to privatize Social Security recently issued its final report.[8] In the end, it did not agree on one plan, but put forward three, all of which illustrate the risks that privatization poses for women. All of the plans would require cuts in Social Security's core benefits so deep that the proceeds from private accounts are unlikely to make up the difference. The first plan would simply divert revenue from Social Security into private accounts, accelerating the date when the reserves in the Trust Fund are exhausted, without proposing a way to fill the hole created in Social Security's finances. The second plan would cut benefits for average earners retiring in 2040 by 24 percent, and for those retiring in 2070 by 43 percent because of a change from wage-indexing to price-indexing in computing benefits.[9] The third plan would cut benefits by requiring workers to work more years to receive the benefits they currently expect, and making other changes in the way benefits are calculated. Participation in the accounts would be "voluntary," but participation in these cuts would be mandatory; everyone, regardless of whether they signed up for an account, would be subject to these benefit cuts. Those who did opt for an account would discover that their Social Security benefits would be reduced still further. Although the Commission was charged not to change benefits for survivors and disabled workers, the Commission acknowledged that its reductions in benefits for retired workers would affect disabled workers as well, because the benefit formulas are integrated.[10] Because benefits for survivors depend on the size of the benefit of the deceased spouse, they also would be reduced. Even with deep benefit cuts, the plans depend on large transfers of money from the rest of the budget to Social Security. Although there is no longer a surplus in the rest of the budget, the Commission does not explain how those transfers will be financed.[11] If such transfers were possible, and similar amounts of money were transferred to Social Security and invested by an independent board in a diversified manner, even more money than under the Commission's plans would be available to increase Americans' retirement income because of the lower administrative costs, at much less individual risk.

Some privatization proposals, such as the Chairman's bill, H.R. 3497, promise to create private accounts without any cuts in current law benefits and, indeed, with improved benefits for women. This is accomplished by moving the costs, and the debt, off the Social Security books to the rest of the federal budget. To finance pri-

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CBO Projections: What Do They Tell Us?" (Center on Budget and Policy Priorities, January 29, 2002).

[5] NWLC calculations based on Joint Committee on Taxation, "Estimated Budget Effects of the Conference Agreement for H.R. 1836, Fiscal Years 2001–2011" (May 26, 2001); and Congressional Budget Office, *The Budget and Economic Outlook, Fiscal Years 2003–2012* (January 2002), Table 1–1.

[6] Ronald Brownstein, "Don't Tap Into Social Security," *L.A. Times* (February 5, 2002), at A1.

[7] *Budget of the U.S. Government, Fiscal Year 2003* (February 4, 2002), Table S–2, at 396.

[8] Report of the President's Commission to Strengthen Social Security, *Strengthening Social Security and Creating Personal Wealth for All Americans* (December 21, 2001), available at http://www.csss.gov/reports/Final—report.pdf.

[9] Kilolo Kijakazi and Robert Greenstein, "Replacing Wage Indexing with Price Indexing" (Center on Budget and Policy Priorities, December 14, 2001).

[10] President's Commission, see supra note 8, at 138–139.

[11] See generally, Statement of Nancy Duff Campbell, "Privatization Report from President's Social Security Commission is 'A String of Broken Promises' to Women" (National Women's Law Center News Release, December 21, 2001); Robert Greenstein, "Social Security Commission Proposals Contain Serious Weaknesses but May Improve the Debate in an Important Respect," (Center on Budget and Policy Priorities, December 26, 2001).

vate accounts under this proposal would require $3.6 trillion dollars over the next 40 years in additional taxes or spending cuts; alternatively, it could be borrowed, increasing the national debt by an additional $8 trillion dollars.[12] Even with those additional dollars poured in, to get the financing to work, the stock market must cooperate, and future Congresses will have to refrain from lowering the 95 percent tax rate levied on the payouts from private accounts, and resist calls to allow account holders to access these accounts before retirement for the same reasons they now can access their IRAs.

A plan that promises more for everyone is appealing—but too good to be true. The costs that are shifted to the rest of the budget still must be paid. But, because of the tax cuts scheduled to take effect and the others in the pipeline, there are no surpluses in the rest of the federal budget to finance private accounts. They would have to be paid for by cutting Medicare, Medicaid, education, and other programs vital to women and their families; by borrowing the money and passing the bill on to future generations; or going back to cutting Social Security benefits after all.

Meaningful steps to safeguard Social Security—holding off on new tax cuts, including accelerating last year's tax cuts or making them permanent; reconsidering whether to implement the parts of last year's tax bill that have yet to take effect and benefit only the wealthy few; and abandoning plans to privatize Social Security—unfortunately do not appear to be on the agenda. Instead, there are proposals to have the Secretary of the Treasury issue a "guarantee certificate" to current retirees and others as they begin to receive Social Security benefits.

As introduced, these bills—H.R. 832, 3135, and Sec. 208 of H.R. 3497—purport to guarantee certificate holders timely payment of all future benefits to which they are entitled under the Act as it exists as of the date the certificate is issued, and that they will receive "accurate" cost of living adjustments (COLA) at least annually.

These certificates are at best a gimmick, not an answer to the real concerns of current and future beneficiaries. Those most at risk of benefit cuts under various privatization proposals—baby boomers and younger workers—would get no assurance that they will receive the benefits they expect under current law. Second, it is not clear that the retirees who would receive certificates would get any legally enforceable rights. An analysis by the Congressional Research Service has concluded that a future Congress could amend or repeal the guarantee, even with bills that appear to set forth an absolute guarantee, such as H.R. 832, 3135, and Sec. 208 of H.R. 3497.[13] But certain provisions of these bills at least would give certificate holders grounds for an interesting lawsuit. These bills describe the certificates as creating "a legally enforceable guarantee" and state that any certificate "constitutes budget authority in advance of appropriations Acts and represents the obligation of the Federal Government to provide for the payment to the individual . . . benefits . . . in accordance with the guarantee." Arguably, these provisions would convert the certificates into bonds, backed by the full faith and credit of the U.S. government.

Apparently out of a concern that these bills might actually expand the legal rights of Social Security beneficiaries, some recent proposals would change the critical language. "Guarantee" would be changed to "entitlement"—but, of course, Social Security is already an entitlement. More significantly, all reference to the certificates representing "budget authority" or an "obligation of the federal government" would be dropped. The certificates would be worthless—except as something to hang on the wall next to the Enron stock certificate.

Several of the proposals to Change the Information Provided to Current Workers in the Social Security Statement Would Mislead Rather than Enlighten the Public

At the same time as this Subcommittee is considering mailing certificates to retirees telling them that their expected benefits are guaranteed, it also is considering proposals that would change the information that is provided to current workers, and send a very different message than the certificates send to retirees.

For example, H.R. 634 and H.R. 930 would require that the individual statements that the Social Security Administration sends to current workers include various

[12] Memorandum to Representative Clay Shaw, Chairman, Subcommittee on Social Security from Stephen C. Goss, Chief Actuary, dated December 13, 2002, Subject: "OASDI Financial Effects of the 'Social Security Guarantee Plus Plan.'"

[13] Memorandum to Subcommittee on Social Security from Kathleen Swendiman, Congressional Research Service, dated February 20, 2002, Subject: "H.R. 3135, the Social Security Benefits Guarantee Act of 2001."

statements concerning the ability of Social Security to pay benefits in the future. Both bills would require the annual personal Social Security Statements to state that "the Trust Fund balances reflect resources authorized by the Congress to pay future benefits, but they do not consist of real economic assets that can be used in the future to pay benefits." H.R. 634, p.3, lines 12–16; H.R. 930, p.6, lines 7–8. Both bills also would require that the individual Statements sent to workers contain information about anticipated cash flows in the program. For example, H.R. 930 would require that the individual statements include:

(I) a comparison of the annual social security tax inflows (including amounts appropriated under subsections (a) and (b) of section 201 of this Act and section 121(e) of the Social Security Amendments of 1983 (26 U.S.C. 401 note)) to the amount paid in benefits annually; and

(II) a statement whether the ratio described in subclause (I) will result in a cash flow deficit and what year any such deficit will commence, as well as the first year in which funds in the Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund will cease to be sufficient to cover any such deficit and the percentage of benefits due at that time that could be paid from the annual social security tax inflows (as that term is used in subclause (I)).

H.R. 634 contains a similar provision. It seems very likely that including such material in the personal statements that workers receive would confuse and alarm, rather than inform, the public.

The experience of the Social Security Administration (SSA) in developing "Your Social Security Statement" should be instructive here. Social Security is a program that offers a variety of benefits to workers and their families. Simply explaining the relevance of these protections to individuals is a challenge. The SSA's first effort to develop an individual statement was the Personal Earnings and Benefit Estimate Statements (PEBES). The GAO evaluated the six-page PEBES and cautioned: "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, the GAO said, but the public also indicated that the dense, six-page statement "contains too much information and is too complex."[14] The likely effect of receiving the statement prescribed by H.R. 634 or 930 would be to transform "fear, frustration, insecurity and hesitation" into panic. Such scare tactics have been used by some as a way to sell Social Security privatization to a public otherwise unwilling to entrust more of their retirement security to the stock market.[15] But such tactics should be beneath this Congress.

H.R. 634 and 930 also would require that the individual Social Security Statements include a statement of the "rate of return" from Social Security. Some proponents of privatization have urged this requirement so that the "rate of return" from Social Security can be compared to that from "other investment vehicles."[16] However, such a comparison would be highly misleading, for several reasons.

First, most of the Social Security taxes paid by current workers are used to pay benefits to those who are eligible. The certificate proposal being considered at this hearing, even if it does not establish a legally enforceable guarantee, at least reflects the intent of this Congress not to renege on those obligations. Thus, to compare the "rate of return" on Social Security, which must meet these unfunded obligations, to the return available from private investment funds, which do not, is misleading. Indeed, once the cost of continuing to meet obligations to current beneficiaries and those nearing retirement is factored in, many economists, including some who favor private accounts, have concluded that the "rate of return" under Social Security and privatized systems is similar.[17]

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

[15] See, for example, Henry J. Aaron, Alan S. Blinder, Alicia H. Munnell, and Peter R. Orszag, "Perspectives on the Draft Interim Report of the President;s Commission to Strengthen Social Security," (Center on Budget and Policy Priorities and The Century Foundation, July 23, 2001), available at http://ww.cbpp.org/7–23–01socsec.pdf.

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

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

Continued

Second, Social Security provides disability and life insurance benefits that are not reflected in the investment concept of "rate of return." These protections make Social Security especially valuable for African American and Latino families, because of higher rates of disability and early death. H.R. 634 and 930 would exclude these benefits from the "rate of return" calculation. Indeed, it is difficult to see how they could be included; after all, most people don't feel disappointed in the rate of return on their life insurance policy if they make it through another year.

Third, 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 with a secure, basic benefit throughout retirement. It is not designed to be the sole source of income; but it is designed to provide the income that people can count on, without worrying about the ups and downs of the stock market, the rate of inflation, or outliving this benefit. In the private investment world, higher returns are associated with higher risk; the value of Social Security's protection against market risk would have to be added to the rate of return calculation.

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, including millions of children, 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. It provides benefits to spouses and surviving spouses. These benefits are available on a gender-neutral basis; however, 98 percent of the recipients of spousal benefits are women. These aspects of Social Security also are devalued in the "rate of return" calculus.

We find it perplexing that the Congress would actively seek to undermine *workers'* confidence in Social Security at the same time it is attempting to shore it up for *retirees* by sending them an embossed certificate. It would appear that the purpose of some of those who talk about adding to the Social Security Statements assertions about the value of the Trust Funds and 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, in furtherance of their own privatization schemes.

Social Security Should Be Strengthened and Improved for Women

The last item on today's hearing agenda is to consider "enhancements to women's Social Security benefits [that] would help ensure that Social Security continues to successfully reduce poverty for women and would better meet the evolving needs of women today."[18] The National Women's Law Center commends you, Chairman Shaw, for making improvements for women, within the Social Security benefit structure that offers so many unique and important protections for women,[19] part of the reform agenda.

Social Security is the mainstay of economic security for older women. Women represent a large majority of Social Security recipients—almost 60 percent of all recipients aged 60 and over, and 72 percent of recipients 85 and over.[20] Because women are far less likely than men to have a pension and substantial retirement savings, women also depend more on Social Security income than men. Social Security provides half or more of the income of nearly two-thirds of all women 65 and over, and 90 percent or more of the income of nearly one-third of such women.[21] Without Social Security, over half of all elderly women would be living in poverty.[22]

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and Economics, edited by A. Douglas Arnold, Michael J. Graetz and Alicia H. Munnell (Brookings Institution Press for the National Academy of Social Insurance, 1998).

[18] Subcommittee Advisory, see supra note 1.

[19] National Women's Law Center, "Women and Social Security Reform: What's at Stake" (June, 2001), available at http://www.nwlc.org/pdf/NWLCSocialSecurityFactsheetJune2001.pdf, and National Women's Law Center, "Why Social Security is a Better Deal than Privatization for Women and Their Families" (July, 2001), available at http://www.nwlc.org/pdf/SocialSecurityBetterDeal.pdf.

[20] NWLC calculations based on Social Security Administration, *Annual Statistical Supplement, 2001*, Table 5.A10 (data from December, 2000).

[21] Kathryn Porter, Kathy Larin and Wendell Primus, "Social Security and Poverty Among the Elderly: A National and State Perspective" (Center on Budget and Policy Priorities, 1999).

[22] Id.

But even with Social Security, poverty in old age continues to be a much greater risk for women than for men. Seven out of ten of the poor elderly are women,[23] and the poverty rate for women 65 and over is more than 60 percent higher than that of men (12.2 percent to 7.5 percent).[24] Older women of color have even higher poverty rates: one-quarter of black elderly women and one-fifth of Hispanic elderly women were poor in 2000, compared to one-tenth of older white women.[25]

The National Women's Law Center therefore urges Congress to target improvements to those women in greatest need. Older women living alone—widows, divorced and separated women, and never-married women—are at the greatest risk of poverty. Since in 2000 six in ten poor elderly women were widows,[26] improving the financial situation of surviving spouses would affect the largest number of vulnerable older women and have an important impact on reducing poverty. Many policy analysts and advocates, including the National Women's Law Center, have suggested proposals to improve widows' benefits. One promising approach would increase the surviving spouse benefit from its current level of 100 percent of the high earner's benefit to 75 percent of the couple's *combined* benefit.[27] Such reforms could prevent the severe drop into poverty that often accompanies widowhood, and increase equity for two-earner couples. To target the improvement to those who need it most and to reduce its long-term costs, the amount of the improvement could be capped. Determining the level of the cap (for example, at an amount corresponding to the average Primary Insurance Amount (PIA) of all recipients, or at the higher level corresponding to the PIA of a worker with lifetime average earnings) involves tradeoffs between benefits and costs.

In addition, we must take steps to improve benefits for the millions of divorced, separated, and never-married women who, while fewer in total numbers than widows, have even higher poverty rates. In 2000, 20.3 percent of divorced women age 65 and older and 23.1 percent of older never-married women lived in poverty, compared to 16.5 percent of older widows.[28] In the future, an even larger proportion of women will enter retirement never having married[29] (or having been married only a short time)[30] and as a result will be ineligible for Social Security survivor benefits. Some of these women will be living in poverty because of years in which they were caring for children or ill family members and had low or no earnings; others will be poor because of a lifetime of working at low-wage jobs. Creating an improved minimum benefit within the existing Social Security benefit framework could address multiple causes for women's lower Social Security benefits and higher levels of poverty in old age. However, such a benefit would have to be designed with women's work histories in mind; a benefit that required 35 or 40 years of earnings to qualify for a decent minimum benefit would help many fewer women than men.

Some smaller reforms, such as those in the Chairman's bill that would eliminate two restrictive eligibility requirements for disabled widows' benefits, and that would waive the two-year duration of divorce requirement for divorced spouses whose working ex-spouse has remarried, would help a small but vulnerable group of women, and the cost of making these changes would be negligible.

Congress also could effectively increase the Social Security benefits of the poorest older Americans by reducing the nearly 100 percent tax on Social Security benefits

[23] NWLC calculations based on U.S. Census Bureau, Detailed Tables from *Poverty in the United States: 2000*, Table 2, available at http://ferret.bls.census.gov/macro/032001/pov/new02—000.htm.

[24] Id.

[25] U.S. Census Bureau, Detailed Tables from *Poverty in the United States: 2000*, Table 2, available at http://ferret.bls.census.gov/macro/032001/pov/new02—000.htm.

[26] NWLC calculations based on Social Security Administration Office of Policy and Office of Research, Evaluation, and Statistics, *Income of the Population 55 or Older: 2000,* Table 8.1, at 139 (February, 2002).

[27] See, for example, Christina Smith Fitzpatrick and Joan Entmacher, "Widows, Poverty, and Social Security Policy Options" (National Academy of Social Insurance, August, 2000); Richard V. Burkhauser and Timothy M. Smeeding, "Social Security Reform: A Budget-Neutral Approach to Reducing Older Women's Disproportionate Risk of Poverty," Policy Brief No. 2 (Center for Policy Research, Syracuse University, 1994); National Council of Women's Organizations Task Force on Women and Social Security, "Strengthening Social Security for Women: A Report from the Working Conference on Women and Social Security" (July 19–22, 1999).

[28] Social Security Administration Office of Policy and Office of Research, Evaluation, and Statistics, *Income of the Population 55 or Older: 2000,* Table 8.1, at 139 (February 2002).

[29] Timothy M. Smeeding, Carroll L. Estes and Lou Glasse, "Social Security Reform and Older Women: Improving the System"(Gerontological Society of America, 1999).

[30] Social Security benefits based on their husband's earnings record are available to divorced women whose marriages lasted at least 10 years.

over $20 per month imposed in the Supplemental Security Income (SSI) program.[31] SSI provides a safety net for poor elderly, blind, and disabled people. However, in calculating a individual's SSI benefit, only $20 per month of "unearned income" is disregarded—and Social Security benefits are considered unearned income. As a result of this limited disregard, any Social Security benefit greater than $20 simply reduces a recipient's SSI benefits dollar for dollar. The $20 disregard level was set in 1972; adjusting it for inflation since then would help most elderly SSI recipients[32] and would allow SSI recipients to receive more income without jeopardizing eligibility for the essential Medicaid benefits that are linked to SSI. It would be especially important to women for two reasons. First, the large majority (71 percent) of aged SSI recipients are women.[33] Second, women are far more likely than men to have monthly Social Security benefits just below the SSI level.[34] Changing the SSI disregard would have no effect on Social Security solvency, because Social Security benefits would be unchanged; however, it would increase costs to the SSI program, which is funded out of general revenues.

Benefit improvements that would significantly increase the well-being of the many women in need have real costs for Social Security and pose real trade-offs. Different improvements target different groups of women. Thus, it is important to evaluate reforms as a package, and in the context of a broader plan to strengthen Social Security for the long-term. We emphasize that improvements to benefits must come on top of a secure, guaranteed-for-life, inflation-adjusted Social Security benefit, not applied to a greatly reduced, privatized benefit, as was proposed by the President's Social Security Commission.[35]

It may not be possible to give out all the tax breaks that Congress is considering to corporations, the highest-income Americans, and the largest estates, and finance privatization, and also maintain and improve Social Security benefits. But if Congress really wants to strengthen and improve Social Security for women, that can be done. To put the challenge into perspective: we could eliminate the long-term, 75-year deficit in Social Security for half the cost of making the tax cut permanent, as the President and some in this House are proposing to do.[36] Repealing the estate tax, which is paid by only the richest 2 percent of estates, will cost about 0.88 percent of taxable payroll over 75 years.[37] If we instead retained the estate tax, we could pay for important benefit improvements many times over. For example, the Social Security Administration estimates that one proposal to improve both the survivor benefit and the minimum benefit would cost about 0.15 percent of taxable payroll over 75 years.[38] Alternatively, that amount would eliminate nearly half (47 percent) of the solvency gap of 1.86 percent of taxable payroll.[39] The issue is one of priorities: to exempt the largest two percent of estates from federal taxation, or to help poor elderly women.

I look forward to working with the Subcommittee on ways to achieve real Social Security reforms to benefit all generations of women.

Mr. HAYWORTH. Thank you. Mr. John?

[31] For a discussion of the impact of this $20 disregard, see Kilolo Kijakazi, "Women's Retirement Income: The Case for Improving Supplemental Security Income" (Center on Budget and Policy Priorities, June 8, 2001).

[32] In 2000, 59 percent of elderly SSI recipients received Social Security benefits, and the average benefit was $394. NWLC calculations based on Social Security Administration, *Annual Statistical Supplement, 2001*, Table 7.D1.

[33] NWLC calculations based on *Annual Statistical Supplement, 2001,* Table 7.E3.

[34] About 30 percent of women, but only 20 percent of men, had monthly Social Security benefits below the $520 per month SSI level in 2000. NWLC calculations based on *Annual Statistical Supplement, 2001*, Table 5.B6.

[35] Statement of Nancy Duff Campbell, see supra note 11.

[36] Center on Budget and Policy Priorities, "Social Security And The Tax Cut: The 75-year Cost of the Tax Cut Is More than Twice As Large as the Long-Term Deficit in Social Security" (December 13, 2001).

[37] Conversation with Joel Friedman, Center on Budget and Policy Priorities, February 26, 2002.

[38] Michael A. Anzick and David A. Weaver, "Reducing Poverty Among Elderly Women," ORES Working Paper Series Number 87 (Social Security Administration, Office of Policy, Office of Research, Evaluation, and Statistics, January, 2001), at 14.

[39] Social Security and Medicare Boards of Trustees, "Status of the Social Security and Medicare Programs: A Summary of the 2001 Annual Reports" (March 19, 2001), available at http://www.ssa.gov/OACT/TRSUM/trsummary.html.

STATEMENT OF DAVID C. JOHN, RESEARCH FELLOW, HERITAGE FOUNDATION

Mr. JOHN. Thank you, and thank you to both the Subcommittee and to their staff for putting this hearing together. This is a very valuable information gathering session.

I have mentioned various of the other issues in my written testimony. In my spoken testimony, I am only going to comment on the guarantee certificates, which I strongly support.

Seniors deserve retirement security and the simple fact is that seniors today have got it. The youngest person who could get a certificate such as those proposed under various pieces of legislation is 62 today. They will be 78 at the time that Social Security starts running cash flow benefits in 2016, and they will be 98 before the last of the bonds in the Social Security Trust Fund run out. Essentially, the money is there to pay them their benefits.

However, as any of us who have done Social Security events in places outside the beltway know the audience is primarily senior citizens and the first thing they want to know is, what is all of this reform going to do to my benefits? The certificates would give them some ease. There is no need to scare these people. There is no reason to allow political campaigns to raise unnecessary and nasty worries.

The certificates would work very simply. Anyone who is already retired would receive a certificate that, among other things, listed what their monthly benefit is and that they would receive an accurate annual cost-of-living allowance as determined by the Bureau of Labor Statistics or the Social Security Administration. As other people retired, they would receive those certificates also. The cost, according to the Congressional Budget Office (CBO), is about $10 million in the first year and $1 million annually after that.

Let me address a couple of points here. These certificates would not change the trust fund. Essentially, when the trust fund starts to run out of government bonds, Congress would have to make some decisions about what it is going to do in order to keep the promises contained in those certificates.

Second, is it a legal document? Well, under current law, you have a legal right to your Social Security benefits and that is what the certificates would say. You have a legal right to a specific amount of Social Security benefits based on your earnings record, which would also be stated on the certificates.

Now, it is very true constitutionally that a future Congress could change those benefits. However, it is one thing for a future Congress to make a change in benefits and try to hide it by wording things in a particular way so it does not seem like one, and it is something else when you have made an explicit promise on paper with a dollar amount of benefits. If Congress does that sort of thing, any law that changes retirees' benefits should be subtitled, "The Politicians' Full Unemployment Act," because that is what is going to happen.

So, in a sense, there is a moral right that seniors have right now to their benefits having paid Social Security taxes over a working lifetime and that moral right is what is asserted in this certificate.

Now, it has been suggested, why do we not give guarantee certificates to everyone? Well, the simple fact is that until someone has actually applied for retirement benefits, we do not know what their earnings record is. You have to have a complete earnings record before SSA can set a dollar amount for your Social Security benefits. Second, you cannot issue certificates for other programs like Medicare because Medicare does not guarantee you a certain dollar amount for your taxes. Medicare payments come out on an episodic basis as needed. The fact is that my 81-year-old father was kept alive last year when he had some heart problems by technology that did not exist when he retired in 1986. What level of benefits would a Medicare guarantee cover?

Now, let me just address one other point here. Is this some sort of a meaningless guarantee? No. It has a legal force. It has a moral force.

There have been irresponsible attacks, such as the idea that the lockbox was raided last year. The simple fact is that Social Security was supposed to receive a certain level of trust fund bonds and it did. The fact that the money after the trust fund bonds were issued was spent on the war on terrorism has absolutely nothing to do with the trust fund's future ability to pay Social Security benefits.

As a matter of fact, this is American history. For a few years, the Social Security surplus was used to reduce the government debt, but otherwise it has paid for the war in Vietnam, it has paid for the war on poverty, and now it is paying for the war on terrorism. As I try to instruct my daughter when she is learning how to budget, the fact that you have paid down your Visa bill has absolutely nothing to do with your car payment. The fact that you have paid down some of the Federal debt has absolutely nothing to do with the ability to pay benefits when Social Security starts to run cash flow deficits.

These certificates would be much more valuable, combined with changes in the annual Social Security Statements so we send a dual message. To senior citizens, you are safe. Congress is not going to touch your benefits. To younger workers, according to the Social Security actuaries, you face some problems in being able to get your full benefits. We need to talk about resolving them. Thank you.

[The prepared statement of Mr. John follows:]

Statement of David C. John, Research Fellow, Heritage Foundation

I appreciate the opportunity to appear before you today to discuss a written guarantee of their Social Security benefits for current retirees, improving the program for women, and increasing the information that the public can receive about Social Security programs. These are extremely important subjects, and I would like to thank the Chairman for scheduling this hearing. Let me begin by noting that while I am a Research Fellow 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 about the current program and the options for reform. Perhaps the best way to do so would be a dual step of both providing today's retirees with a written guarantee of their Social Security retirement benefits, and providing today's workers with better information on Social Security's future by improving the annual statements they get from SSA. 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] 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 begin to run cash flow deficits by the year 2016 without reform.[3]

Another aspect of Social Security that needs reform is the way that the current program fails to meet the special needs of women. While the major improvements in this regard are so costly that they will probably have to wait for a full reform bill, Congress can begin the process this year.

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] Since serious reform is not feasible this year, Congress should pass these simple but extremely important changes improve the prospects for a full debate next year.

1. Congress should grant retiree's a written guarantee of the Social Security benefits.

Social Security reform has nothing to do with today's senior citizens. The program has more than enough resources to pay them full benefits for the rest of their lives. Sadly, one of the most troubling aspects of the debate over reforming the Social Security system has been an attempt to scare senior citizens into believing that their benefits will be cut. However, Congress can emphasize that current senior citizens have nothing to fear from Social Security reform by guaranteeing their benefits in writing.

President George Bush recognizes the importance of reassuring seniors. The first principle that guided last year's President's Commission to Strengthen Social Security was: "Modernization must not change Social Security benefits for retirees or near-retirees." However, polling results show that even though most responsible Social Security reform proposals would not affect them at all, seniors are still worried.

The facts are different. While Social Security will not have the assets necessary to pay full benefits to younger workers, it will have enough to pay current retirees. The youngest person eligible to receive Social Security retirement benefits in 2002 (at age 62) will be 76 before the program begins to run cash flow deficits in 2016. They will be 98 before the Social Security trust fund runs out of IOUs. People who retired before 2002 will be even older.

Legislation that would create a guarantee

Legislation now before Congress would establish such written guarantees. Senator Tim Hutchinson (R–AR) and Representative Walter Jones (R–NC), for example, have introduced the Social Security Benefits Guarantee Act (S. 806 and H.R. 832). Senator Rick Santorum (R–PA) and Rep. Jim DeMint (R–SC) have introduced similar legislation (S. 1558 and H.R. 3135).

These bills would require the Secretary of the Treasury to issue, to each recipient of Social Security retirement benefits, a certificate that includes a written guarantee that they will receive their monthly benefit and an accurate annual cost-of-living increase. Benefits would continue to be paid through the Social Security trust funds, just as they are now. Workers who are already receiving benefits would receive a certificate soon after the legislation is signed, while new retirees would receive their certificates when they first apply for and are approved to receive retirement bene-

[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.

fits. Those workers would receive a certificate guaranteeing the benefits that are *in effect at the time that they retired* plus the accurate cost of living.

Survivors and spouses who qualify for benefits would also receive a certificate stating what they are entitled to and how long they will receive benefits. If their circumstances change in a way that affects their benefits (such as after the death of a spouse), they would receive a new certificate stating the new amount of their benefits.

Is this a real guarantee?

The guarantees would be real and legally binding. Congress is making an explicit promise *in writing* that it will not reduce retirees benefits. Current law says as much right now. It states that anyone who meets the requirements to receive Social Security benefits has a legal right to the level of benefits they qualify for and no less.

While this fact has been in the law, Congress has never before made it explicit and guaranteed each recipient's exact amount. Most Americans have never read a law book, and most of us would have trouble understanding what was written there if we did. Americans assume that their benefits are guaranteed in the law, but they have no explicit proof. Guarantees would take the language out of the law books and send it to every retiree in language that they can understand.

Even more important, the guarantee allows explicit accountability. If a future Congress tries to change retirees' benefits, retirees will know it and can vote them out of office. Guarantees will prevent subtle benefit changes by allowing retirees to compare the amount on their certificates with their monthly checks. Few politicians will be willing to face the results of trying to change these guarantees.

It is true that hypothetically, a future Congress could pass legislation reducing the Social Security benefits of those who have already retired. While nothing in these guarantees would tie the hands of a future Congress, the explicit written nature of the guarantee will ensure that such a move has severe political implications. The Congress that breaks the promise and reduces retirees' Social Security benefits will discover that they have actually passed "The Politicians Full Unemployment Act."

What the guarantee does not do

First, guarantees would not affect the trust fund. In specific, the legislation creating these guarantees is not intended to provide an alternate way of financing Social Security benefits once the current trust fund runs out. If written guarantees for retirees are approved, Social Security benefits would still be paid through the trust funds. When those trust funds run out, Congress will have to decide how to pay benefits. Every year that Congress delays serious Social Security reform, the task will get harder.

Guarantees would also not make reform more expensive. If anything, it only makes today's reality more explicit. We as a people have a moral obligation to pay the Social Security benefits of current retirees after having taken their payroll taxes for decades. No serious reform plan calls for cutting the benefits of today's seniors. As noted above, President Bush's first principle of reform is to protect the benefits of retirees from reductions. These benefits are going to be paid no matter what, and the guarantee just reinforces this fact.

Guarantees do not prevent Congress from changing the benefit levels of younger workers if it chooses to do so. If Congress fails to establish personal retirement accounts or to take other steps that will improve the ability of the system to pay benefits to younger workers, it may have no choice but to change their Social Security benefits. Since the proposed guarantees would only cover the retirement benefits that are in force when a worker actually retires, Congress could theoretically change them up until the day of retirement. Of course, if it waited too long, there would probably be political repercussions.

Why the guarantee only covers retirees

Social Security is almost unique among government programs in that it promises an explicit level of monthly benefits upon retirement in return for paying a specific tax. However, the amount of benefits that are payable can only be exactly calculated when a retiree's earnings record is complete and he or she has actually applied for benefits. Before then, any benefit predictions are only estimates. Actual benefit levels could change as the worker's annual earnings rise and fall. For that reason, the guarantees cannot be offered with the same assurance of accuracy for any worker who is still in the labor force.

Similarly, it would be both inaccurate and irresponsible to offer these guarantees to younger workers. Not only are their earnings records not even close to complete, the fact is that Social Security does not have the financial resources to pay today's promised benefits in the future. The program's actuaries predict that Social Security will begin to pay out more in benefits than it receives in taxes by 2016. By 2038, the IOUs contained in the program's trust fund will run out.

The guarantees are not a substitute for reform. They do not magically create assets that would be available to pay retirement benefits to younger workers. If someone in Congress wishes to try to extend guarantees to all workers, it is their responsibility to include in the same bill a way to pay for those benefits.

Finally, Medicare is completely different. It does not promise to pay an explicit and limited financial benefit level in return for taxes, and it does not pay its benefits to an individual worker in a predictable stream of monthly payments. Instead it pays a service benefit when the health of the beneficiary makes it necessary. But it is very difficult to define the benefit in any precise way—for instance, two doctors can treat a chest infection in completely different ways. Also, both its costs and the available level of technology change constantly, making the public liability of a guarantee unpredictable. Moreover, the treatments available to a retiree today, or in the future, may not have existed when he or she first retired, and could not have been included in a guarantee certificate.

In conclusion, the choice facing Congress is fairly simple. On the one hand, it can show seniors that they have nothing to fear from the debate over Social Security by establishing written guarantees that their benefits will be paid. On the other, it can leave those fears unresolved and emphasize the fact that all Social Security benefits can be changed at the whim of Congress.

2. Congress should begin to address the special needs of women under Social Security.

When Social Security was created in 1935, virtually all women worked in the home raising children for much or all of their lives. Obviously, times have changed rather radically. However, Social Security has not sufficiently changed to meet the needs of today's women.

Last year, the President's Commission to Strengthen Social Security identified several ways that the current Social Security system fails to meet modern women's needs. Your Social Security reform plan, Mr. Chairman, does an even better job of identifying specific ways that women are not treated equally and ways that today's system could be improved.

In the long run, Congress must improve survivors' benefits for single earner couples. It is simply wrong for a woman to lose her husband and to be forced into poverty when her benefits are reduced to 50 percent of what the couple received when both partners were alive. The sad fact is that costs do not decline by half when one spouse dies. Mortgage or rents remain the same, as do utilities, automotive costs, and others. Because this change will be expensive, it may have to wait for a comprehensive reform bill, but it must be considered.

The best solution for younger single income families would involve a personal retirement account. That is the only way to really prevent this inequity from affecting younger women who choose to stay home with their children. However, it is already too late for this important step to help older women, and especially those who have already retired.

Another issue that needs to be resolved is today's Social Security's requirement that a marriage last at least ten years before a woman is eligible to receive benefits from her former husband's earnings. The sad fact is that fully one-third of all marriages last less than the required ten years. Again, the best solution would involve a personal retirement account, which courts could split between the couple in the case of divorce. However, until that passes, a good first step would be to end the two year delay in collecting spousal benefits faced by a divorced woman if her former husband has remarried.

3. Congress should improve SSA's Your Social Security Statement (YSSS).

Senior citizens are not the only ones who need more information about Social Security. If a written guarantee of seniors Social Security retirement benefits is important to allow them to see that reform will not affect their benefits, it is equally important to provide other workers with information about why Social Security could lack the resources to pay their full promised benefits. In a sense, these two proposals are different sides of the same coin. Approving both would allow for a more informed debate about Social Security's future.

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 has 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]

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

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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.

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.

In the House, there are two bills that would accomplish these aims. H.R. 634 by Rep. Jim DeMint includes all of these recommendations, as does H.R. 930 by Rep. John Sununu. The Sununu actually goes even farther by also including provision that would improve the information in the annual Social Security trustees report and allowing SSA to make public the Continuous Work History file to qualified researchers. This last item is important, as it would allow those researchers to more exactly duplicate the work of SSA's Office of the Chief Actuary in scoring reform proposals and determining how they would affect specific segments of the workforce.

Improving Your Social Security Statement would allow today's workers to understand why Social Security needs to be reformed. Together with language establishing a written guarantee of their benefits for retirees, the two steps would go a long way towards ensuring a full and complete debate about Social Security's future.

Conclusion

If Congress were to pass legislation guaranteeing senior's Social Security benefits and improving the information available to other workers in Your Social Security Statement, the debate over Social Security reform would be greatly enhanced. The guarantees would ease the unnecessary concerns that seniors have about their retirement benefits. Providing more information to average Americans through their annual YSSS statements would make it easier for workers to understand how potential reforms could affect their retirement. Finally, it is well past time to deal with some of the inequities that the current Social Security system forces upon women. While it may be an unfortunate necessity that full redress must wait until a full reform bill is passed, Congress can at least make a start. Regardless of whether Congress acts this year to deal with Social Security's impending insolvency, these small but important measures are long overdue.

Mr. HAYWORTH. Mr. John, we thank you for your testimony, as well.

Indeed, to all our witnesses, again let me reiterate our thanks for your presence here today and for your testimony.

Mr. Atwater, thank you, sir. I can assure you that Members of NARFE in the Sixth Congressional District of Arizona are a lot who are not shy in the least of communicating——

[Laughter.]

Mr. HAYWORTH. And to let you know the grassroots works quite well. I hear from folks, so be assured that the input is there, I think for almost every Member of Congress.

Mr. ATWATER. Thank you very much.

Mr. HAYWORTH. Just one question. You mentioned Chairman Shaw's plan, and again, just to amplify what that would do, that would take the current two-thirds reduction down to one-third?

Mr. ATWATER. One-third, that is correct.

Mr. HAYWORTH. As if often the case in government, once we get away from the roar of the greasepaint and the smell of the crowd and the kind of debating society that we run from time to time, we have to make some hard decisions. Not to describe this as a sliding scale, but is the position that you have immutable or could that be subject to revision if we have to hammer something out?

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

Mr. ATWATER. Well, you know, there are numerous bills on the subject right now that are pending and none of them have come to the Floor. But we are encouraged by the Chairman's bill because he did put something in his omnibus bill that included the GPO provision, and that is, of course, one of the things that we have been very interested in for a number of years, and we are hoping that we could get that maybe pushed along to get something done in this 107th Congress. No, it is not the final thing, but we certainly would welcome that.

Mr. HAYWORTH. So that is really a goal that you see immediately based on what Chairman Shaw has offered in his omnibus bill?

Mr. ATWATER. Yes. We think that that is a goal, and we have been pushing GPO for a number of years, and hopefully that GPO would be passed maybe separate from everything to benefit these widows and women that are just getting by on $300 or $400 a month.

Mr. HAYWORTH. It is a very real problem and I thought my colleague from Texas, Mr. Johnson, made the point very well with the Commissioner, as you have, and we appreciate the ongoing dialog we will have with Members of your organization.

Ms. Pfotenhauer, you also offered a thought about how to handle benefits. I would like you to amplify that and restate that and take a look at that 75 percent of the couples' benefit and how would that inure if there is an average or some information, or how would that inure to the benefit of the widow.

Ms. PFOTENHAUER. As I think many of us know, since we have mentioned frequently today that women tend to outlive men, so the wives are outliving their husbands, once a spouse dies, the remaining survivor goes down to an individual benefit and what she gets then is reduced substantially, and, of course, her fixed costs have not been commensurately reduced. So we believe that we need to increase the widows' benefits from 100 percent of the deceased workers' benefit to 75 percent of the couples' benefit, and we think that that will have a dramatic and real impact, even if it is not on hundreds of thousands of lives.

I know that in Congress, we are frequently asked to make a decision that is going to affect the most people. Here, I think we should make a decision about a matter that can be done relatively quickly, relatively cheaply, and affect those who need it the most.

Mr. HAYWORTH. Thank you for that.

It was interesting, Ms. Wolfe, to hear your reminder to us about the whole notion of payroll taxes and the challenges that businesses face. Despite some of the other testimony and the convenient Enronizing of political rhetoric, I think it is worth noting that most jobs in our society in the private sector come from—it is almost a disservice to call it small business, it is essential business, and the challenges that are afoot there for entrepreneurs and payroll taxes.

You might be interested, in the mists of my memory, and I am sure staff will hasten to correct me, when I first arrived here, a previous Administration offered a budget plan and it was quite candid from the Office of Management and Budget looking into the future, dealing with the question of Social Security. And what has been left unsaid is your very cautionary note on payroll taxes. By the estimates of the previous administration's own budgeters, the children and grandchildren we have talked about, if nothing is done to save this system, would face, if memory serves, I think an 80-percent increase in payroll taxes.

Clearly, no matter how impassioned the advocates of the radical redistribution of funds in our society may offer that type of advocacy, I do not think that can hold up really for anybody. So your admonishment is one that I think we can all remember and sets the stage for us to work on a bipartisan basis.

Sure enough, Ms. Hildred, great with the calculator, tells me I was a little bit wrong.

[Laughter.]

Mr. HAYWORTH. But I am in the ballpark when it talks about an extreme increase, 50 percent. I do not think that is much more palatable for anybody, to face a 50-percent payroll tax increase. Thanks to the staff for helping to find those figures. Thank you again for your testimony.

Now we turn to my friend, the Ranking Member, from California.

Mr. MATSUI. Thank you, Mr. Chairman. Mr. Chairman, just for the record, I want to make a clarification. If I understood what you were saying, in time of war, obviously we may move into the surplus, and these are CBO numbers that we put in percentages. Reevaluation of the economic projections that occurred in January of this year, from January 2000, was 42 percent in the reduction of the surplus. The tax cut of May or June of last year was 41 percent of the surplus. Additional government spending approved by both the House and the Senate and also the President was 8 percent, and the war effort was only 9 percent of the total surplus.

So the war really had nothing to do with the loss of the surplus over the 10-year period, from $5.6 trillion to a projected surplus now of a little over $1 trillion, and we have not even gotten through this year yet. So I just call your attention to that.

Mr. JOHN. But, sir, it also did not change Social Security.

Mr. MATSUI. Sir?

Mr. JOHN. It also did not change Social Security at all.

Mr. MATSUI. I understand that. I also want to ask you, you are acknowledging the fact that these certificates of guarantee that you referred to, and I think Mr. DeMint and Mr. Armey introduced legislation to that effect, you acknowledge the fact that it confers no additional legal or contractual right on the recipient. You were talking about a moral right?

Mr. JOHN. What it does is to emphasize the existing legal right that an individual has to their benefits, and it also makes it exceedingly hard for a future Congress to change that without certain types of fallout.

Mr. MATSUI. And you are acknowledging the fact that after we send those certificates out, a Congress with the President's consent, obviously, can make a change weeks later, days later, or whenever we have the time to do so, is that right?

Mr. JOHN. Congress could make the change as long as they are willing to face the consequences.

Mr. MATSUI. I understand that, but we are talking about—I mean, I think we like to do things that have legal ramifications, and I just want to make sure I understand. I understand what you are saying, but what I am trying to acknowledge is the fact that this confers no additional legal right, because that is what our CRS report has said and that is what almost everyone who has looked at this has acknowledged. So I just want to make sure I understand your testimony.

Mr. JOHN. The CRS report also said that it conferred a substantial guarantee or a substantial additional—I will have to give you the exact wording. But the simple fact of the matter is that very few Americans have law books in their homes. If they receive a certificate informing them what the current law is, they are much better informed than they are now.

Mr. MATSUI. Let me just ask you, have you had a chance at the Heritage Foundation, with your involvement, obviously you are involved with Social Security——

Mr. JOHN. Yes.

Mr. MATSUI. Have you had a chance to review Mr. Armey's recent legislation that he introduced last month?

Mr. JOHN. I have, yes.

Mr. MATSUI. And have you costed it out?

Mr. JOHN. The costing according to SSA is approximately $6.8 trillion, and those are real dollars, 2002 dollars.

Mr. MATSUI. I do not think that is right. I think it is about $21.3 trillion over——

Mr. JOHN. Is that in 2002 dollars?

Mr. MATSUI. No, I am talking about in current dollars, right.

Mr. JOHN. All right. In 2002 dollars, according to Steve Goss's memo, it comes to approximately $6.8 trillion in additional revenue transfers.

Mr. MATSUI. Let me ask Mr. Riemer to comment. You have had a chance to review Mr. Armey's proposal?

Mr. RIEMER. Yes, I have.

Mr. MATSUI. Could you give us the breakdown on the cost here?

Mr. RIEMER. Certainly. My understanding is that the bill borrows $21.3 trillion from the individual accounts that it sets up, and on top of this, it actually has to have a subsidy of about $20.4 trillion from the general budget. And in spite of all that, it actually fails to restore solvency to the program.

Mr. MATSUI. Right. It does not create solvency. Mr. Shaw is not here, so I am just going to ask you briefly, what is the cost of Mr. Shaw's plan in terms of general fund borrowing over, let us say, 50 years?

Mr. RIEMER. I am actually not familiar with that number. It is quite large and I am sure——

Mr. MATSUI. Ms. Entmacher, I think you know it.

Ms. ENTMACHER. The cost of the plan, if it is all borrowed, is an additional $8 trillion to the national debt. If we did it by raising revenue or cutting other programs, the cost goes down to $3.6 trillion, the difference being the interest costs.

Mr. MATSUI. These are trillion dollars?

Ms. ENTMACHER. Trillion dollars.

Mr. MATSUI. Trillion dollars.

Ms. ENTMACHER. Yes.

Mr. MATSUI. I do not think any of you could answer this, but I do not think we have that money available at this time, and we are not projecting that money to be available any time soon.

Mr. John, maybe you can use your organization to try to find out where that money could come from, because obviously we need to solve this problem. At Heritage, you could really do us a big service if you could come up with some way we can fund either Mr. Armey's proposal or Mr. Shaw's or even one of the three proposals in the President's Commission, because I think that would really do us a wonderful favor.

Mr. JOHN. Mr. Matsui, we have a budget model and we also have a Social Security model, pretty much the only Social Security Trust Fund model outside of SSA, and we would be delighted to sit down with you and your staff. We would also like to work out where the $22.2 trillion that Social Security has in unfunded liability, according to Steve Goss, comes from.

Mr. MATSUI. The unfunded liability is about $10 trillion.

Mr. JOHN. Well, we are going to disagree on numbers, I think.

Mr. MATSUI. I know these are pretty accurate. They come from the actuary.

Mr. JOHN. Well, so do mine, actually.

Mr. MATSUI. Everybody can look at things differently, but thank you. Yes, if I may——

Ms. ENTMACHER. Yes. Actually, there are a few suggestions that we make in our testimony. The first point to emphasize is that the long-term cost of the tax cut is actually twice as big as the long-term 75-year shortfall in Social Security, and we actually, because they both involve older people, focused on just the estate tax. If instead of repealing the estate tax, as some in Congress have proposed doing, we would have 0.88 of taxable payroll available for the next 75 years, that would eliminate nearly half of the long-term shortfall in Social Security and would fund all of the improvements in women's benefits that have been talked about many times over. So the matter is one of choices and priorities.

Mr. MATSUI. That is what it is.

Mr. HAYWORTH. Thank you very much.

Mr. MATSUI. Thank you.

Mr. HAYWORTH. To echo priorities, again, with all the talk of plans, the Chair would again humbly request the minority to put forward a plan that we can work together to solve the problem, because right now, no plan means benefit cuts of at least 33 percent, and as I mentioned earlier, a tax increase of 50 percent. That is untenable, no matter the attraction some in this room may have for tax increases.

The gentleman from Kentucky.

Mr. MATSUI. If the gentleman would just yield for a minute, since he referred——

Mr. HAYWORTH. The gentleman from Kentucky.

Mr. MATSUI. I will reclaim my time——

Mr. HAYWORTH. I was very generous with time.

Mr. MATSUI. Let me just respond to you, because——

Mr. HAYWORTH. I am sorry. I have the gavel. We are going to observe the edicts——

Mr. MATSUI. I understand that——

Mr. HAYWORTH. The gentleman from Kentucky.

Mr. MATSUI. But will the gentleman please put his bill to the Floor so we can vote on it?

Mr. HAYWORTH. When the gentleman comes forward with a plan, we can all move together. The first respect is definition of terms, and having been generous with the time, again, we will not take time away from the gentleman from Kentucky. You have your 5 minutes, sir.

Mr. LEWIS. Thank you, Mr. Chairman. I find myself in a bind. My parents are 85 years old. They depend on Social Security. I have a son that is 30 years old. He is employed in a manufacturing company, he and his wife both. They make between them about $60,000 a year. And then I have all those other relatives that are in the Baby Boom generation that are going to be facing retirement before long. For some reason, because I have an "R" in front of my name, I am a Republican, then I am out and Republicans are out to destroy the Social Security system.

I remember a few Christmases ago, as I was leaving my mother's home after Christmas, she stood on the front porch and she said, "Watch out after my Social Security." So there is a concern out there with senior citizens because the rhetoric here puts fear in their hearts that their Social Security may not be valid and solid because politicians here want to use it as a political football. I think that is a shame. It is a disgrace.

Democrats do not have the monopoly on compassion in this country. I am compassionate about my mother and my father. I am compassionate about my son. I am compassionate about the fact that some day, they may have to pay 50 percent more in payroll taxes, and my grandkids. I think it is time we stopped the foolishness here and we worked together to solve the problem.

My question to Mr. Riemer and Ms. Entmacher, what is your solution? We know there is a problem. I am certainly willing to listen, but not to political rhetoric that you have no answers, just criticism. Do we want to go down the road and wait until the last minute, and as the Chairman just mentioned, put our kids in that position?

I am compassionate about this. I want to save Social Security. It is a good program. It has worked very well for my grandparents, now for my mom and dad. I hope it will work well for me and my generation, and I hope it will work well for my kids and grandkids.

But I just get sick of this. Every time we have a hearing, every time we try to do anything, it is bickering back and forth about a political agenda, charts and all this stuff that mean absolutely nothing to those people out there that when they hear this political debate, they are afraid about losing their Social Security, and my mother and father are two that are concerned about that. We know that it is going to be solid for them. We do not know how solid it is going to be for the Baby Boom generation. And we certainly know that there are going to be real problems for our kids and grandkids.

So let us try to get some answers, not politics as usual. What is your proposal?

Ms. ENTMACHER. If you would like an answer, I thought I tried to provide one in response to Mr. Matsui's question.

Mr. LEWIS. What is it?

Ms. ENTMACHER. First, if you take a look at the tax cut that was passed last year——

Mr. LEWIS. That tax cut has absolutely nothing to do with Social Security.

Ms. ENTMACHER. It has——

Mr. LEWIS. Did we cut payroll taxes? Did we cut payroll taxes?

Ms. ENTMACHER. If you will let me finish, I will try to answer your follow-up question.

Mr. LEWIS. It had nothing to do with Social Security.

Ms. ENTMACHER. It does because the plans that are being proposed, the Commission's plan, Mr. Shaw's plan to an even larger extent, and Mr. Armey's plan to an even greater extent than that, all use general revenues to move to private accounts. Everyone who is debating the future of Social Security is talking about using general revenues to fund private accounts or fund Social Security. Somewhere, they are taking money from the general revenue part of the budget into the Social Security system to deal with the financing gap.

Now, there is a disagreement about whether that extra money should go into private accounts or if it should go into Social Security, but everyone is talking about taking money from the general revenue side of the budget and using it in some way, and the ways are different——

Mr. LEWIS. And that is true, but what is your answer?

Ms. ENTMACHER. I would say, take a look at the tax cut. When the tax cut was passed last year, assurances were made that we could save every dollar in the trust fund to strengthen Social Security——

Mr. LEWIS. Look, the Social Security Trust Fund, not the surplus, but the Social Security Trust Fund is still in the same shape today as it was before the tax cut.

Ms. ENTMACHER. But the issue is, you then have money, and then we get into a discussion about should that extra money that we are willing to invest in Social Security go into individual private accounts, where individuals bear the risk of how their investment performs, or should it be given to Social Security, let us say for diversified investment by a board that could invest part of that money into the same kinds of securities that people are saying individuals can put their dollar in at lower individual risk. That is the nature of debate. That is why the general revenue side and the tax cut is so relevant.

And let me go further. Let me suggest that one of the things that has been happening in the last 20 years is that the tax structure within Social Security has become more regressive, and I am not looking to increase the payroll tax rate on anyone, but more and more of the earnings of the highest earners in America are not taxed. If you make more than $85,000 a year in this country——

Mr. LEWIS. Wait a minute——

Ms. ENTMACHER. You pay zero Social Security tax.

Mr. LEWIS. Those individuals are paying the huge majority of the taxes in this country today. I mean, they are——

Ms. ENTMACHER. Not if the tax cuts continue to go through. But historically, the amount of payroll that has been taxed has been much higher. It has been up at about 90 percent historically. Because the earnings growth in this society has been so much higher for people at the top than people at the bottom, who have actually lost wages in real terms, more and more of the high earnings are escaping Social Security taxation. If you restore that level of taxation to the 90th percentile, you could close a significant portion of the solvency gap.

Mr. LEWIS. See, here is another dilemma. I do not think my kids want to give up their tax cut on their $60,000 a year.

Ms. ENTMACHER. Well——

Mr. HAYWORTH. That is very interesting. I would intervene here as the Chair, and I thank you for the vigorous discussion. I appreciate Ms. Entmacher laying out a plan that, in terms of philosophical moorings, talks about the government taking over investment in private business. So you have, rather than global crossing, U.S. crossing and a radical change where the government picks winners and losers, and also a radical increase in payroll taxes for people who commit the crime of succeeding in society through their hard work and ingenuity.

The gentleman from California, Mr. Becerra.

Mr. BECERRA. I thank the Chairman for yielding the time.

Let me begin by thanking all of you for your testimony and your patience in being here. To Mr. Atwater, continue to have your troops go out there and talk to each and every one of us. I hope you succeed in your efforts. I believe at the end, Congress will reform the way we treat those pensioners who have received money through Social Security or should receive money through Social Security and through a separate pension, so I congratulate you on those efforts, so continue with that.

Mr. ATWATER. Thank you very much. You can be sure we will.

Mr. BECERRA. I know you will, and I am encouraging you to do more.

Mr. ATWATER. Thank you.

Mr. BECERRA. Rather than get into a whole lot of things, because I think we all have a lot to do, including catch some flights, let me just mention a couple of things.

I want to congratulate Ms. Entmacher for her efforts to try to give an answer, because quite honestly, I think you hit right on the money on what our biggest problem is. We know we are going to have a difficulty in about 30 years for Social Security, yet what we are doing now is not making it easier to deal with that problem in 30 years. We are making it more difficult by diverting monies now to tax cuts, the chart showed, that go to major corporations like Enron to the tune of over $300 million at the expense of men and women who are working right now, contributing money, would love to have those guarantee certificates, but it is no different than the piece of paper that the legislation about a lockbox was written on. It is just a piece of paper.

Ultimately, it is what each Member of Congress and the President does, we all do, to guarantee that in 30 years, the monies will be made available, and certainly, and this is where, Mr. John, I would disagree with something that you said, that when you talk to your daughter about paying down a Visa, it has nothing to do with a car payment, absolutely, it does, maybe not directly, but if she continues to rack up charges on that Visa account, she is going to have a lot harder time finding the money to pay her car payments on time. And the more we do as a government to act like any rational family to pay down our car payment or our Visa payment so we can take care of our other debts, the better off we will be.

We could have used a ton of the money that went out in tax cuts and used it to pay down the national debt. The more we pay down the national debt, the more in 30 years we will have monies to do things in our general fund that will let us go ahead and address the needs, not just of our Social Security recipients, but our kids who have to go to school, our seniors who have to seek out medical care, to increase our transportation infrastructure, and it just seems that if we want to be wise, while we may not believe we have got the silver bullet yet or have the final solution on what we need to do for Social Security, in the meantime, let us not make it worse and divest ourselves of whatever money we had.

When Chairman Shaw introduced his plan last session of Congress, we were talking about tremendous surpluses and it was clear that the Shaw plan would have to use those surpluses and the trillions of dollars to pay for that transitional cost of going towards privatized Social Security. We do not have that surplus the way we thought we did, and not only that, but we have a lot less of it because of these tax cuts that have passed and some of these tax cut proposals that are pending.

So, quite honestly, this debate does not get any easier the more we start diverting monies toward some tax cuts that, for the most part, do not help the kids of the Members of this body. Most of those tax cuts will go to others. Certainly, those kids—I know my kids are not looking at seeing my estate taxes cut because I will not pay any estate taxes. I do not make enough money to be among the 2 percent wealthiest Americans to ever be able to benefit from an estate tax repeal because only 2 percent of every American who passes on will ever pay any of these estate taxes. But yet the $50 billion we use on an annual basis by having eliminated or repealed the estate tax will be gone forever, not available in the future for Social Security or anything else.

It was an interesting discussion. I appreciated your time and your comments, and I hope that we will continue to hear from you, because whether it is trying to make sure that people who paid into a Social Security trust account and are also paying into another pension fund should be entitled to receive what they paid for or whether it is trying to make sure that women ultimately are treated better by our system, even though it tries to treat people who are low income well, it does not do enough for women, ultimately, we have to do it by being frugal and sensible now so we resolve it in the future.

I will yield back my time, Mr. Chairman, and again, thank the panel for being here.

Mr. HAYWORTH. We thank the gentleman from California, as again we reiterate our thanks to all the witnesses. One thing is certain. There are major differences of opinion and the date on the calendar draws nigh to November 5, so I guess the rhetoric will sharpen rather than lessen. Nevertheless, the Subcommittee will work together, hopefully in a nonpartisan fashion, to act on many of the recommendations you offer, and as Chairman Shaw promised before he had to leave, I guess we get together again on Wednesday.

Again, thanks to the witnesses and those who joined us and this hearing is adjourned.

[Whereupon, at 1:37 p.m., the hearing was adjourned, to reconvene on Wednesday, March 6, 2002, at 10:00 a.m.]

SOCIAL SECURITY IMPROVEMENTS FOR WOMEN, SENIORS, AND WORKING AMERICANS

WEDNESDAY, MARCH 6, 2002

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

The Subcommittee met, pursuant to notice, at 10:04 a.m., in room B–318 Rayburn House Office Building, Hon. E. Clay Shaw, Jr. (Chairman of the Subcommittee) presiding.

Chairman SHAW. Good morning. Without objection, I will put my opening statement into the record and proceed immediately with the Majority Leader, with Mr. Armey.

[The opening statement of Chairman Shaw follows:]

Opening Statement of the Hon. E. Clay Shaw, Jr., a Representative in Congress from the State of Florida, and Chairman, Subcommittee on Social Security

Welcome. When it comes to saving Social Security, the only way we can develop a bipartisan proposal is through cooperation and mutual respect. The American people cannot afford for us to engage in demagoguery. It only poisons the well of potential compromise and impedes constructive action to strengthen Social Security. That is unacceptable. The cost of doing nothing to save the system is just too high to let politics stand in the way of progress.

In his radio address on Social Security's 3rd anniversary, President Roosevelt said, "[o]ur Government in fulfilling an obvious obligation to the citizens of the country has been doing so only because the citizens require action from their Representatives. If the people, during these years, had chosen a reactionary Administration or a 'do nothing' Congress, Social Security would still be in the conversational stage. . . ."

Fortunately, our predecessors found common ground and acted in the best interest of the American people. We must continue that tradition and work together now to assure the success of Social Security continues for all Americans.

We can begin today to find common ground, in advance of major reform, to improve the program for women, reassure seniors that promised benefits will be paid, and better educate the public.

As we heard at our hearing last week, Social Security is particularly important to women, since they live longer, earn less, take time away from the workforce to care for kids, and have less pension and asset income than men.

Social Security's lifetime-inflation adjusted benefits, spouse and survivor benefits, and progressive benefit formula provide critical protections for women. Without Social Security, more than half of elderly women would live in poverty.

The Commissioner of Social Security and experts testified about ways we could improve benefits for women prior to reform without negatively affecting Social Security's long-term solvency. Women should not have to wait for comprehensive reform for us to make changes to improve their lives.

We also want to make sure seniors know that Social Security reform will not affect their benefits. Seniors often see and hear conflicting information reported in print media and television, fueling their concerns that cuts to their benefits are imminent, despite commitments by the House of Representatives and the President that their benefits will not be touched.

Today, we will hear ideas on how to express the commitment to preserve seniors' full benefits. Rather than debate the merits of any single approach, I hope we can discuss ideas for how best to convey our assurance to seniors that we will continue paying full benefits and COLAs to retirees, disabled workers, and their families—many of whom depend on Social Security for much or all of their income.

As we develop ways of better informing and assuring seniors about their benefits, we must ensure that the information provided to American workers is accurate and complete. Last week, our witnesses testified about the importance of informing the public about Social Security and its finances. The Commissioner of Social Security stated that she is looking at ways to improve the information provided in the *Your Social Security Statement* that is sent to all workers age 25 and older. Any change to this document should build public understanding and enhance the national dialogue on Social Security reform.

I am delighted that so many of my colleagues wanted to testify today. I hope that in examining these issues of mutual concern, we can both improve Social Security and build a foundation for the kind of bipartisan partnership we'll need to save Social Security.

Chairman SHAW. As everyone knows, your entire statement will be made a part of the record, and you may proceed as you see fit. I will, after your testimony, Mr. Armey, proceed to questioning. I know there is going to be a vote at 10:30, so we will go to questioning of you, and then we will get to the other Members.

So, Jennifer, we will be getting to you probably after the vote, but we will be proceeding, and we will lead off with Ms. Dunn immediately following Mr. Armey.

STATEMENT OF THE HON. RICHARD K. ARMEY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS, AND MAJORITY LEADER, U.S. HOUSE OF REPRESENTATIVES

Mr. ARMEY. Thank you, Mr. Chairman, and I will try to be brief and to the point.

First of all, I want to thank you for holding this debate. There is no doubt that today America requires some serious policy debate on the subject of Social Security, and Social Security reform is made imperative today by the fiduciary circumstances of Social Security itself. Probably, and if I may, Mr. Chairman, point out through my adult lifetime there has probably been nothing more seemly in all of political discourse in America than the manner in which this Nation has debated Social Security. The fact of the matter is, any effort that has ever been made that I have perceived in my adult lifetime to seriously discuss Social Security from a policy perspective has been knocked down by reckless political diatribes, and the Nation has been able to afford that up to this point, because up till this point the Nation could entertain the belief that they would always have more receipts coming in out of current payroll taxes than disbursements to beneficiaries, but it is absolutely, unequivocally clear today, beyond anybody's ability to doubt it, that in the near term future most people agree by 2016 Social Security will be required by its current structure to pay out more than what is received in payroll tax receipts.

This is a serious matter, and one that we should, as this Subcommittee has clearly indicated it is prepared to, begin to examine now and get prepared to deal with this as soon as possible. It would be most naive to not recognize this circumstance and inexcusably reckless to deny it if it is recognized.

This is the situation very clearly. First of all, we must remember one fundamental fact, no American citizen ever has nor ever will receive a dime of Social Security benefit that is not received from current tax payments by their children. That is exactly what will happen in the year 2016. In the year 2016, we have a placebo by which we can console ourselves with the notion that we are still financially solvent by virtue of the trust fund, but the fact of the matter is, even if you make up for the shortfalls between the years 2016, and most people agree by 2038, you are going to make up that difference out of general revenue.

So you basically have three circumstances, decisions that must be come to in 2016. Cut Social Security benefits for then current recipients. Let me emphasize, I know of no one who wants to do this. I know some who have felt it is desirable to do it, but I want to be as clear as I can be, I know personally that it is not necessary, nor desirable to face this dilemma by cutting retirement benefits for any senior citizen in America. Let me be emphatic about that. It is not necessary, and it is not desirable. I not only do not advocate that, but I will not tolerate it. Personally, I would consider it a moral affront to reduce benefits for seniors. I hope that is clear, and I hope it is clear enough so that tonight I will not hear about my secret plan to cut benefits. That kind of statement is purely darn asinine and mean spirited, and I resent it with a passion, because I have had to listen to it since 1964, and it is the worst kind of political irresponsibility. I know of no need to, nor is it in any way desirable to cut seniors' benefits. I repudiate any effort to do so as irresponsible, and I will not tolerate it because I see it as a moral affront. I hope that is clear. Now I can say it again, it is not.

Now, I may speak for my party. I believe I do for the most part speak for the Republican Party in that.

The other alternative might be to raise payroll taxes on our children. I do not believe it is necessary, nor do I believe it is desirable to raise payroll taxes on our children to meet this contingency in the year 2016. I have five young adult children. I was just recently blessed with even one more, grandchild. These young people today in their twenties and thirties have enough to do without us raising their payroll taxes to solve this problem. It is not necessary, it is not desirable. So let me say in the most unequivocal terms I can: I do not see any need for a plan to raise taxes on these young people, and I would repudiate any plan that does so.

Now then, there is another option. The fact of the matter is we must prepare ourselves to deal with a cash flow problem that can be unmanageable if we do nothing between now and 2016 or potentially manageable if we do something. There are a lot of plans out there. We have a lot of people who have done some serious adult thinking in this matter, and I want to personally express my appreciation for that. That is to say they have thought about Social Security as something other than a political cudgel to beat their opponents over the heads with. I should mention Clay Shaw, Jim Kolbe and Charlie Stenholm, Nick Smith have plans. And the other body, Senator Gramm has a plan.

My own personal plan, which is not a secret plan, since I have cosponsored it. It exists in legislative language and is a bill before this House. I prefer to call the DeMint Plan. That is my personal favorite. In the DeMint Plan, it is not necessary to cut benefits to seniors, nor is it necessary to raise taxes on our children. What we do in this plan is recognize the power of the private capital markets, recognize the security of the private capital markets, and allow American working seniors or American workers, depending upon their income level, to take anywhere from 3 to 8 percent of the now 12.4 percent of their earnings that is taken in payroll taxes for Social Security, and divert those taxes to personal retirement accounts that are safe, secure, and well constructed. It is the belief of actuarials, including the Social Security's own actuary, that as people do that, they will be able to grow the value of these accounts anywhere from four to six times as fast as the current return on Social Security which is paltry. And that as they do that, when they reach retirement age, they will possibly the Social Security requirement out of those private retirement funds, or insofar as the Social Security guarantee is not fulfilled by that, the obligation of the Social Security Fund to their retirement will be considerably less. As you go through time, those who opt in voluntarily to this plan—and I remind you it is a voluntary opt in—those who opt in voluntarily at a younger age will more certainly meet the Social Security guarantees out of their private retirement accounts, and having done so, alleviate the rest of us from what is now unfunded liabilities of the deficient Social Security, quote "trust fund" that we are going to face in the future.

This is a good plan. It has been well examined. There is nothing secret about it, and it is not a plan to cut taxes.

My final plea for this body is let it begin here in this group with this Subcommittee, duly elected people in Congress in a appropriately constituted committee and Subcommittee of the House of Representatives, given the authority to hold jurisdiction over this most serious and morally obliging area of public policy. Let it begin in here, that there be zero tolerance for irresponsible politics and whole insistence on serious adult policy discussions. It is time for the politics to end, and for serious policy debate to begin on this subject. We cannot delay it any longer.

Those are my comments.

[The prepared statement of Mr. Armey follows:]

Statement of the Hon. Richard K. Armey, a Representative in Congress from the State of Texas, and Majority Leader, U.S. House of Representatives

Chairman Shaw, Ranking Member Matsui and other committee Members, thank you for this opportunity to testify about Social Security. America deserves a real, national debate on Social Security reform. I am eager today to join you.

The Social Security system is going broke. Last year's report by the Social Security Trustees—a group of non-partisan government experts—showed that Social Security expenditures will begin outpacing Social Security tax revenues in 2016. In just over 10 years Social Security will have to redeem its IOUs from the rest of the federal budget. Congress will be faced with the choice of transferring trillions of dollars from the general fund, or raising taxes and cutting benefits. In all, $22 trillion will be needed over the next 75 years just to cover the liabilities of the current system. Every credible actuary, every expert, every independent official has certified these facts. It's simply not sustainable.

Aside from the budget and demographic challenges we must face, Social Security is unfair for far too many Americans. The committee's bipartisan interest in making some benefit adjustments for women shows that many of you have already acknowledged this problem. I congratulate both parties for this realization. However, Social

Security will not truly be fair for all Americans until we agree on comprehensive reforms that provide all individuals a greater ability to nurture their own retirement nest egg, and to own it.

Here's just one of many examples to consider. First, we often talk about the lack of savings among Americans. Yet lost in this discussion is the fact that the federal government is taking 12.4% of every worker's income for Social Security. Particularly for low-income individuals, that's a portion of their income that could otherwise be saved in an IRA, 401k or company pension program. Workers could save more if they were taxed less.

Next, consider a low-income individual who had 12.4% of their income taxed throughout their life instead of being able to save it. The individual worked hard and finally reached retirement, only to die soon thereafter as low-income individuals disproportionately do. Their lifetime "savings" that the government has been forcefully taking from them just died with that low-income individual. The same is true of the individual's spouse when he or she dies. Congress has tried to make adjustments for widows and orphans, but there remains no real opportunity for low-income workers to build wealth and pass it own to their loved ones and their community.

A Social Security system based on personal retirement accounts can help correct the problems I just mentioned and much more. Chairman Shaw has a plan that uses accounts. Reps. Jim Kolbe, Charlie Stenholm, and Nick Smith have their plans. Rep. Jim DeMint and I have joined together to introduce our own bill, which he can describe in more detail later. We have our differences, but we solidly agree on the need for reform and the need to allow individuals a greater ability to provide for their own retirement security.

For those who think I have a secret plan, take a look at the DeMint-Armey plan. It's H.R. 3535 and it's out there in plain day-light for everybody to see. Here's a brief review:

- The DeMint-Armey plan does not use benefit cuts or tax increases.
- The plan allows workers to voluntarily put between three and eight percentage points of their Social Security tax into personal retirement accounts. It's based on a progressive scale that allows lower-income workers to put more into their accounts and to build more wealth.
- The investments in the accounts are diversified and made within security requirements set by the government. While decades of economic history would have to be turned on its head for people to be worse off, Social Security would still act as a safety-net for those individuals who might retire with less in their account than they would with traditional Social Security.
- As described earlier, the individuals own the accounts.

I need to remind you that like all reform plans there are transition costs. In the case of the DeMint-Armey plan, it would cost about $7 trillion over the next 75 years, but that's less than one-third of the costs if we do nothing.

I'd like to conclude on this notion of doing nothing. Say what you will of each of our respective plans and approaches, but under any responsible criteria a "Do Nothing Plan" is worse—much, much worse. There are those on this committee that say we are not facing an oncoming crisis, that if we make only minor changes, Social Security will be safe. That's simply not true. And, it's an abdication of responsibility. The "Do Nothing Plan" is a combination of benefit cuts, more tax increases and borrowing trillions of dollars.

The "Do Nothing Plan" is secretly authored by those who want to needlessly scare grandma and grandpa about supposed benefit cuts while having nothing to offer their grandchildren. They have no plan to offer to the debate.

So to those authors of the "Do Nothing Plan" who want to debate Social Security, I offer the following challenge. If you want to debate Social Security, come before this committee and offer your plan to save, strengthen and modernize Social Security. Until you have a plan of your own, there's no real debate to have.

Chairman SHAW. I would like the record to reflect that I have been very lenient with the gavel. In fact, I have allowed Mr. Armey to go for almost 10 minutes.

Mr. ARMEY. Oh, I am sorry.

Chairman SHAW. And, I would also like to say that I will certainly afford the same courtesy to Mr. Gephardt should he ever choose to come before this Subcommittee and have an open and full debate on Social Security.

Mr. STARK. Well, he sent me.

Chairman SHAW. Well, I will never deny, Mr. Stark, that you can be a junkyard dog. But I will say that I am reading some——

Mr. CARDIN. Mr. Chairman, is Speaker Hastert planning to come before us with a program?

Chairman SHAW. I have no idea, but we have our Majority Leader, and I would welcome the Minority Leader.

Mr. CARDIN. Just wondering.

Chairman SHAW. And let me continue, if you will. I am amazed, last night after the House finished its regular business and the Republicans went off to the National Republican Congressional Committee dinner, Mr. Gephardt did take to the Floor. I wish I were on the Hill at the time, or I would have gone down and tried to join him. And I just want to read a couple of things that he said, which I think are really much below the dignity of the office that he holds in a great political party.

And that is, he says, "Republicans are refusing to have a full and fair debate on their schemes of privatization. Do they have something to hide?" And then later in his talk he said, "And you better believe that there are millions of people out there who care about Social Security, and are concerned, and rightly concerned, about secret Republican plans to wait until after the election to put forward plans that will cut their benefits."

Nothing could be further from the truth. During the last Congress, I went and personally went over with Mr. Archer a plan with Mr. Gephardt. We spoke for some time. We asked him to get back to us. I went down to the White House. Bill Archer went over this plan—it was the Archer-Shaw plan at the time—went over this plan with the President, and the President's comment, after hearing it, he says, "Gee, this sounds like we wrote it," speaking of Democrats.

When I went to the White House for the signing of the bill, the Social Security bill—I believe it was the one that allowed people over 65 to work without being penalized, a bill that I was very proud of and the President was very proud to sign—I said to the President, "Now let's do the rest of reform." And he looked at me and he said, "You get the leadership on the Hill to go forward on the Democrat side," he said, "and I'll be there." They never did, and he never did.

I have sent my plan, which is in the bill form. It is not a secret plan, as yours is not. I have sent it over to Mr. Daschle. The wall of silence is deafening. I have never seen anything like it. I will have a full and complete hearing on any plan that the Democrat leadership will bring in here. I would like to do that. I think that what we should do is to try to work together to reconcile these plans.

Secret plan? Is it a secret plan of the Democrats to run out of money in 2016 and cut benefits? I don't think so. But that is what is going to happen if we don't do something, if we don't get off the dime. And the politics of this thing are purely disgraceful. We are talking about the safety net of the most fragile part of our population. It is keeping millions of seniors out of poverty. We can do better but we cannot go it alone. One political party cannot go it alone. The Democrats cannot go it alone, the Republicans cannot go it alone. We have got to get together. I don't know how many times I have to put out my hand and ask for help, and ask for a bipartisan approach to this most important problem, and I am met with nothing but silence, and then people taking on the Floor on nights when they know that Republicans are not here and making irresponsible statements. I think it is below the dignity of this body, and it is certainly below the responsibility, the awesome responsibility that we have in this Congress, and particularly in this Subcommittee, to do something about Social Security.

If the Democrats don't want personal savings accounts in addition to the existing system—and I say in addition because my plan doesn't touch the existing system at all; I leave the trust fund, everything totally alone—then fine. Let's have their plan, but there is no controversy here as to when we are going to run out of cash. We are going to run out of cash in 2016. There will be no surplus, and the Social Security Trust Fund is going to have to turn to the Treasury to get money to pay off the Treasury bills. The Treasury bills will be completely gone in 2038. The program will be bankrupt. It will no longer be able to meet its responsibility.

So I applaud everyone who is coming forward with a plan. Some I disagree with. Some I agree with in part. Some I totally agree with. But nevertheless, I think it is so important that we come forward with a plan, and then we try to pick apart each other's plans. There is nothing wrong with that. Partisanship is one of the things that makes us great in this country because we examine ideas, we dissect them, we tear them apart, and we point out the flaws. And a matter of fact, through the hearings that we have had on Social Security since I have Chaired this Subcommittee, have been the foundation for writing the plan that I have put forward. Mr. Rangel said something to me about, "Gee, you wrote the plan." And I said back to him, I said, "We wrote the plan because I took into consideration and thought every criticism that I have heard before this Subcommittee and have tried to answer it in the plan."

Now, do the most conservative Members of this body like my plan? No. Do the most liberal like it? No. So it must be a pretty good plan. I think mine is right in the middle. But anyway, I am still looking for someone in a leadership position, either in the Committee on Ways and Means or in the hierarchy of the Democrat Party, on either side, in the Senate or in the House of Representatives, to come forward and work with me in order to try to get this thing done. I think that it is truly unfortunate that we find ourselves, and we find me being in this position of just pleading for some bipartisan cooperation on this, because I am very, very concerned.

And this is not just a problem in this country. Other countries have faced up to this. Over in the U.K., United Kingdom, Labor pushed through the plan that they have, and they are trying to work through it. But a pay-as-you-go system cannot work when you are finding that you are going to be looking at a time very shortly when there are only going to be two workers per retiree. There is just simply not enough cash coming into the system in order to take care of the benefits. So I would hope that we can work together. Mr. Matsui and I have worked together on a number of things. I would welcome his assistance. I would welcome his plan, as well as Mr. Gephardt's, Mr. Rangel's, or anyone else on this Subcommittee, the full Committee, or on the leadership of the Democrat Party.

Mr. Matsui?

Mr. MATSUI. Thank you, Mr. Chairman. Let me just say this. We welcome the opportunity to sit down with anyone in your party, including the President, to talk about this issue.

I might just read a September 27, 1994, appearance by Mr. Armey on CNN "Crossfire." Mike Kinsley asked Mr. Armey, "Are you going to take the pledge? Are you going to promise not to cut people's Social Security benefits to meet these promises?" Mr. Armey said, "No, I'm not going to make such promises." The next day on September 28 on CSPAN the Majority Leader said, "I would never have created Social Security in the first place."

And so this isn't really about demagoguery. What this is really about is making sure that we protect the benefits. We saw what happened with Enron. We know exactly the situation there, and people need, obviously, a safety net, and we want to make sure that there is a defined benefit program at the end of the day for somebody who reaches 62 or 65 years old, that they are going to have those benefits available to them.

And I might just point out, you know, Mr. Armey, for the first time I wish you were running for reelection because I thought your promises were very firm about protecting the current level of benefits for Social Security recipients. Unfortunately, you are not going to be here in 2003 when the President plans to take this program up again, and it will be left up to others, and as a result of that, we can't rely on your commitment and your promise, because we are not taking this issue up this year. We are going to take it up after the election.

And I have to say, Mr. Armey, you have a plan, the Chair of the Subcommittee has a plan, the President has come up with three plans which his Social Security Commissioner disavowed last week. Why don't we bring those bills to the Floor so we can have a debate on them, and let's vote on them. Send them to the U.S. Senate if you have 219 votes. We would love to have those issues come up. The problem is, you know your plans are not credible.

Mr. Armey, you have come up with a certificate of guarantee that CRS and everyone else says has no force of law. In fact, even your Heritage Foundation gentleman who testified last week said it doesn't have the force of law, it is just a moral issue. And so, it doesn't have any rationale at all except maybe to kind of cloak the issue in terms of what you really plan to do. And that is the frustration I think that a lot of Americans have about this. Your plan, for example, borrows from the general fund $21 billion. And in addition to that, it has the Social Security Trust Fund borrowing $20.3 trillion, and that is not even paid after 75 years, and so you have some real holes to pick up on your plan.

Now you will say that yes your plan will pay it back in terms of the general fund money after 75 years, but the fact of the matter is, we don't know what it is going to look like 75 years from now. Seventy-five years ago, 1927, Lindbergh flew over the Atlantic. We don't even remember things like that. There was no such thing as Enron Field in baseball 1927. So here we are talking about 75 years in the future. We could end up having a catastrophic situation because in the first 30 years, your plan and Mr. DeMint's plan, surprisingly for somebody who is fiscally conservative, borrows $9.5 trillion from the general fund. Now, since we have had the tax cut, since we have had reexaminations and reevaluations of economic projections, obviously that money does not exist any more.

So I would like you to put your plan on the Floor of the House so we can debate this issue, find out how we can fiscally responsibly pay for the borrowing that is going to occur over the next 30 years, because you have not explained that, nor has Mr. Shaw. We had a meeting, and I was part of that meeting, with Speaker Hastert, in which myself and Mr. Gephardt, Mr. Shaw, Mr. Archer, and Mr. Rangel appeared. And in Mr. Shaw's plan, I think it was the year 2037, he borrows from the general fund $11.7 trillion. And when the Speaker heard that, he said, "Well, how do we pay for that?" And that is when everything disbanded and that is when we realized that Mr. Shaw's plan was not credible. Mr. Shaw should put his plan on the Floor of the House so we can vote this. Send it over to the U.S. Senate, have the Senate debate this issue. But, unfortunately, you are never going to bring this bill to the Floor of the House because you know it is not credible, you know you can't pay for it, and you know you can't make the budget balance as a result of it.

Now let me just conclude by making one other—you made a lot of statements, but I will keep my remarks under 5 minutes, Mr. Chairman. In terms of this certificate of guarantee, the only question I have to ask, Mr. Armey, is that if a person—because it is a valuable right—loses her certificate, will they be able to reapply and get another certificate, or is the paper not really worth anything? Because those certificates obviously have some value. So if someone loses it or it is ruined in a flood or something like that, is it expected that they will reapply and the Social Security Administration will give them another one?

Second, will it have the individual's name on it, or will it just be a piece of paper that just says, "We guarantee your benefits?" Will it talk about the amount of money that individual will receive? Do we have any of these things that you could tell us about in terms of what the certificate will say and the value of the certificate, and whether or not, if after 2037, general fund monies will be used to pay for it, if we haven't fixed the system? And all of us want to fix the system. For anyone to suggest that we are not going to fix the system is irresponsible, and we are going to fix the system. I wish you were around, because obviously you want to protect these benefits, but you are leaving at the end of this year, and I feel very badly about that now, given your commitment to Social Security.

Mr. ARMEY. Thank you. You have covered a lot of ground. Let me just say in 1994 Michael Kinsley asked me to give him an ironclad guarantee on a subject I don't understand. I am not in the habit of doing that. If I understood in 1994 what I understand now about what is possible in terms of fixing this system, I would have said, "You are damn right, Mr. Kinsley, and can you get anybody from your party to do the same?" Had I known what I know now, I wouldn't have had a doubt about it.

I would not have constructed Social Security the way it was constructed in 1936. Had I constructed Social Security in 1936, I would have put the investments by the individuals into private capital markets where they could have been safe, secure, and could have grown, and incidentally could have grown a stronger America instead of a bigger government. That would have been a better plan in 1936. Unfortunately, we didn't have that plan in 1936.

Enron has got nothing to do with Social Security. All Enron proves is that your mother was right when you were 12 years old and she told you not to put all your eggs in one basket. That is all it means. And to bring Enron into this Social Security discussion is nothing but demagoguery.

The certificate shouldn't be necessary. If we didn't have politicians running around America trying to scare the hell out of every senior citizen every 2 years to get their votes, it wouldn't be necessary to talk about guaranteeing senior citizens.

Mr. MATSUI. Time is running out but——

Mr. ARMEY. That is unfortunate. Let me complete it.

Mr. MATSUI. Commissioner Barnhart actually said that by sending these certificates, you are going to scare senior citizens. I think her point of view, being the Administrator of Social Security and having been on the Commission, the Actuarial Commission on Social Security, she probably has a little bit more insight into what senior citizens are thinking than perhaps you do and perhaps even I do, so I would go along with her observations about these certificates frightening senior citizens.

Mr. ARMEY. Well, let me just say by virtue of the actuarial assessments given by the Social Security Administration's own people, the DeMint plan would have $7 trillion over the next 75 years in transition costs if we acted on this kind of a belief. And I quote, I have said and I continue to maintain that incremental changes that do not alter the fundamental insurance-based structure of Social Security or its role as a secure foundation of retirement incomes are needed to extend the solvency of Social Security. If I believed that and acted on that, then I would be saying I am prepared to take $22 trillion worth of transfer from general review to make up for the inevitable shortfalls. That was your belief that you said to me on September 7. As you know, the first thing you have got to do is quit being naive about the dilemma. It is real. It is coming. We have got to face it. I am just saying you will face it either with a good plan that reduces the final transition bill to $7 trillion, or you can face the whole $22 trillion which will be completely unmanageable and will force you to take steps that I find unacceptable.

Mr. MATSUI. Do you know how we are going to get the $9.5 trillion over the next 30 years?

Mr. ARMEY. Do you know how we are going to get the $22 trillion if we do what you have been suggesting, which is nothing, but stick your head in the sand and pretend all is copasetic? This is a serious matter.

Mr. MATSUI. It is a very serious matter, and I hope you treat it seriously——

Chairman SHAW. If both gentleman would yield——

Mr. MATSUI. But I don't think you are really doing it with certificates——

Chairman SHAW. Hey, hey. If both gentleman would yield, we are going to have to recess in order to make this vote, and perhaps when we get back, Mr. Matsui will explain how he voted on a resolution calling for Social Security without cutting future retiree benefits and without tax increases, how he proposes to pay for it——

Mr. MATSUI. By not privatizing the system.

Chairman SHAW. As he and I both—well——

Mr. MATSUI. By not privatizing the system. Privatizing the system is going to create a huge hole interested Social Security system. You know it. We all know it.

Chairman SHAW. I will be glad to——

Mr. MATSUI. In fact it will actually create about a 54-percent reduction in benefits for those that will—someone is going to have to explain that, Mr. Chairman.

Chairman SHAW. If you can do it without borrowing, I will be your next campaign manager for whatever you plan to run for.

We will be in recess just long enough to catch this one vote.

[Recess.]

Chairman SHAW. We will now go to the Committee on Ways and Means panel, and I will call Members in the order they came in. Mr. Stark said he could not——

Mr. MCDERMOTT. He is not coming back.

Chairman SHAW. He is not coming back, and he asked that we make his statement a part of the record, and without objection, we will. Ms. Dunn, you may proceed.

[The statement of Mr. Stark follows:]

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

Thank you Chairman Shaw for the opportunity to testify today before the Ways and Means Social Security Subcommittee.

It's unfortunate that the Majority proposes one gimmick after another to try to inoculate themselves from the public backlash against their efforts to privatize Social Security. I assume the Majority engages in gimmicks because it cannot pass meaningful legislation to make Social Security solvent. Here are just some of the gimmicks I'm referring to:

Gimmick #1

First, the House passed H. Con. Res. 282, Keeping the Social Security Promise Initiative, putting the Congress on record as opposing Social Security benefits cuts. Although a nice gesture, resolutions do nothing to protect the Social Security benefits of current and future beneficiaries.

Gimmick #2

Second, Representative Dick Armey has proposed that the government provide "guarantee certificates" to current Social Security beneficiaries. These "guarantee certificates" are worthless pieces of paper. They guarantee nothing, protect nothing and do nothing. If these certificates were a real guarantee, however, they would protect fewer Americans than current law. These certificates would only be given to current beneficiaries, leaving anyone not on the rolls out in the cold.

If we are going down the route of certificates, however, why not make them legally binding and guarantee benefits to everyone who becomes eligible for Social Security? The certificates under H.R. 3135, Representative Armey & DeMint's bill, are not binding. Future Congresses, therefore, could repeal these "guarantees."

And why stop with Social Security? If this legislation moves forward, I will offer an amendment to provide Medicare Guarantee certificates to every American guarantying them access to fee for service Medicare once they turn 65. Now that's a guarantee the American public would support.

Gimmick #3

The third gimmick and falsehood promulgated by the House Majority is an idea that privatization is the savior of Social Security.

The Enron debacle is a clear example of why that is not true. Let's just ask some of the Enron employees if they wish they had their Social Security benefits in the stock market.

Recent surveys show that people are already delaying retirement because of stock market losses. Dumping Social Security benefits into stocks isn't going to make retirement more secure. In fact, it may well do the opposite.

Social Security protects against the risk of death or disability, the risk of low lifetime earnings, the risk of unexpectedly long life, and the risk of inflation. Individual accounts would not accumulate enough money to protect most of those who become disabled or families who lose a provider.

All Social Security privatization proposals reduce guaranteed Social Security benefits. The President's handpicked Social Security commission proposed cutting benefits for future retirees by 30–46 percent, reducing disability and survivor benefits, raising the retirement age, and drawing on general revenues.

Because of last year's tax cut, Congress couldn't pay for the transition to a private account Social Security system even if we wanted to! All the Social Security bills that propose individual accounts and do not cut benefits end up dipping into the general revenue fund to pay for them. If that is what Congress needs to do to make the Social Security system solvent, then Congress should directly transfer general revenue funds into the Social Security Trust Fund. This is what I proposed in the last Congress. This proposal would be simpler administratively and would cut out high priced individual account managers who charge expensive fees.

Under privatization, lower-wage workers (which disproportionately includes minorities and women) would trade in their progressive Social Security benefit for a regressive individual account benefit. This occurs because individual savings accounts, which are based on a flat percentage of earnings (i.e. a non-progressive structure), would be substituted for Social Security benefits, which are calculated on a progressive basis.

I ask the House Majority to have a little respect for the American people and stop trying to dupe them out of their Social Security benefits with gimmicks.

If President Bush and the House Majority want to replace current guaranteed Social Security benefits for some risky individual account benefit, then they should have some pride in their proposal and honestly share the details with the American people.

STATEMENT OF THE HON. JENNIFER DUNN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WASHINGTON

Ms. DUNN. Thank you very much, Mr. Chairman. I appreciate your holding this hearing. I know that you are going to hear from a number of Members, but I would like to bring up a point that I don't want overlooked. When Barbara Kennelly, who is a dear friend and colleague of all of us, left this panel, she reminded us, "Don't forget the women." And so I feel personally that my job is to call attention to the role of women, how they are treated under the Social Security Act.

Let me start by saying that there is no more important retirement program for women than Social Security. Since its beginning, it has been a critical safety net that protects many older women from poverty. Any reform proposal needs to offer women the peace of mind they desperately need and deserve as they enter retirement. Despite its past successes, Social Security faces an enormous challenge as we enter the 21st century. The program that worked so well in the past, now shortchanges many women due to a combination of outdated societal assumptions and a coming demographic crunch. Millions of working women will contribute payroll taxes without seeing any value added to their benefit.

The spousal benefit under Social Security entitles the spouse, who is usually the wife, to 50 percent of the other spouse's benefit whether or not she worked outside the home, and that is the key element. If a woman contributes payroll taxes, in other words, she has worked and is married throughout her working life, and earns a benefit higher than the amount equal to 50 percent of her husband's benefit at retirement, she gets to keep her benefit. According to the Social Security actuaries, however, this only occurs 37 percent of the time. So a married woman working as an occupational therapist, who averages about $27,000 a year in salary, could pay roughly $70,000 in Social Security taxes through the course of her career. Yet because of her husband's high-salary history, she would receive the same benefit as if she had not worked at all. And thus in my mind, my colleagues, the $70,000 is all tax money. It is all wasted. It is all thrown away from her payroll taxes.

Obviously, with over 70 percent of mothers now working outside the home the current system is not an accurate reflection of the time, the money, and the effort women put into their own careers. Working women are also penalized by the benefits formula. Since Social Security benefits are based on an average of the individual's highest earnings over 35 years, women who leave the work force temporarily, perhaps to raise a family, will have zeroes for those years, and they will be factored into the calculation for the 35 years on which Social Security benefits are based at retirement.

For example in my own situation, a woman earning a good salary as a computer systems analyst, who takes 8 years off to care for my children, will lose thousands of dollars in future benefits if I continue to be married and I continue to work. In my opinion, there is no more regressive public policy toward a working woman than a system that penalizes her for taking time out of her career to nurture a young child.

For women under 35 the problems with Social Security are magnified. They are trapped in an arrangement that is virtually guaranteed to give them less than what they put in. As they contribute more and more money to Social Security, their promised benefits continue to shrink. In the short run, we can alleviate some of the inequity by revising the rules governing benefit calculations, especially those that harm divorced women and widows. Small changes in these areas will go a long way in helping women, and these changes are addressed in some of the legislation that you will hear testimony on today.

In the long run we need to convert a Nation of beneficiaries into a Nation of owners and savers, and I believe that this will happen through the use of personal savings accounts. Personal accounts are not a panacea for all that ails the Social Security system, I admit, but they can be an important step in the right direction.

Social Security in its current form does nothing to encourage savings and investment, the two pillars of a safe and secure retirement. And for women, personal accounts offer an opportunity to receive more from a system that has historically given them less. Personal accounts will help them to build financial assets and cultivate a sense of proprietorship.

As former Senator Daniel Patrick Moynihan has recommended, these accounts could take the form of the thrift savings plan that so many of us, Members of Congress and others, currently enjoy. These plans are diversified in a broad range of bonds and equities to minimize risk for elder workers and retirees. In fact, during the last 12 months when the broader stock market has dipped, the two more conservative investment funds in our thrift savings have grown by 5.4 percent and 7.7 percent respectively, not bad when you consider that the rate of the return for the district I represent under current Social Security is under 2 percent.

Last year President Bush's bipartisan Commission on saving Social Security released a report containing several suggested reforms that would restore fiscal integrity to the program. The merits of the ideas certainly are being debated. Honorable people can disagree about what is the best course of action. What can't be disputed, however, is the need to act. If we fail to address these problems, our inaction will be tough to justify to the future generation who will ultimately bear the burden.

And I request that all the Members of this Subcommittee and other colleagues as we begin debate on this issue, don't forget the women.

Thank you, Mr. Chairman.

[The prepared statement of Ms. Dunn follows:]

Statement of the Hon. Jennifer Dunn, a Representative in Congress from the State of Washington

Thank you Mr. Chairman and let me express my appreciation for your leadership on this issue.

Let me start by saying that there is no more important retirement program for women than Social Security. Since its inception, it has been a critical safety net that protects many older women from poverty. Any reform proposal needs to offer women the peace of mind they desperately need and deserve as they enter retirement.

Despite its past successes, Social Security faces an enormous challenge as we enter the 21st century. The program that worked so well in the past now short changes many women due to a combination of outdated societal assumptions and a coming demographic crunch.

Millions of working married women will contribute payroll taxes without seeing any value added to their benefit. The "spousal benefit" under Social Security entitles a spouse—usually the wife—to 50 percent of the other spouse's benefit whether or not she worked outside the home. If a woman contributes payroll taxes throughout her working life and earns a benefit higher than the amount equal to 50 percent of her husband's benefit, she gets to keep her benefit. According to the Social Security actuaries, however, this only occurs 37 percent of the time.

So a married woman working as an occupational therapist who averages $27,000 a year in salary could pay roughly $70,000 in Social Security taxes throughout the course of her career. Yet, because of her husband's high salary history she would receive the same benefit as if she hadn't worked at all. Thus, the $70,000 is wasted money. Obviously, with 70 percent of mothers now working outside the home, the current system is not an accurate reflection of the time, money and effort women put into their careers.

Working women are also penalized by the benefits formula. Since Social Security benefits are based on an average of the individual's highest earnings over 35 years, women who leave the work force temporarily to raise a family will have zeros factored into the calculation for those years. For example, a woman earning a good salary as a computer programmer who takes 8 years off to care for her children could lose thousands in future benefits. In my opinion, there is no more regressive public policy toward a working woman than a system that penalizes her for taking time out of her career to nurture a young child.

For women under 35 the problems with Social Security are magnified. They are trapped in an arrangement that is virtually guaranteed to give them less than what they put in. As they contribute more and more money to Social Security, their promised benefits continue to shrink.

In the short run, we can alleviate some of the inequity by revising the rules governing benefit calculations, particularly those that harm divorced women and widows. Small changes in these areas will go a long way in helping women.

In the long run, we need to convert a nation of beneficiaries into a nation of owners and savers through the use of personal accounts. Personal accounts, while not a panacea for all that ails the Social Security system, could be an important step in the right direction. Social Security in its present form does nothing to encourage savings and investment—the two pillars of a safe and secure retirement. And for women, personal accounts offer an opportunity to receive more from a system that has historically given them less. Personal accounts will enable them to build financial assets and cultivate a sense of proprietorship.

As former Senator Daniel Patrick Moynihan has recommended, these accounts could take the form of the Thrift Savings Plan that so many federal employees—including Members of Congress—enjoy. These plans are diversified in a broad range of bonds and equities to minimize risk for elder workers and retirees. In fact, during the last twelve months when the broader stock market has dipped, the two more conservative investment funds in the TSP have grown by 5.4 and 7.7 percent respectively. Not bad when you consider that the rate of return for the district I represent under the current Social Security system is a paltry 2.2 percent

Last year, President Bush's bi-partisan commission on saving Social Security released a report containing several suggested reforms that would restore fiscal integrity to the program. The merits of the ideas can be debated. Honorable people can disagree about what is the best course of action. What cannot be disputed, however, is the need to act. If we fail to address these problems, our inaction will be tough to justify to the future generations who will ultimately bear the burden.

Chairman SHAW. Thank you, Ms. Dunn. Mr. Pomeroy?

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

Mr. POMEROY. Mr. Chairman, I thank you for this hearing and the opportunity to have a vigorous debate on this topic.

I am frankly—and I want to be professionally polite to my colleagues. I think that we are debating sincerely held beliefs, but honest to God, Mr. Chairman, I am staggered by the suggestion that the existing Social Security program is unfair to women. Women will live on average 7 years longer than men. They will be in and out of the work force. They will have lower earnings history, on average. A system of social insurance reflected in Social Security that replaces at the lower wage earner and a greater percentage of income, and makes that payment absolutely assured month after month for as long as a person shall live, is the very thing that it literally the lifeline for millions of women living out their last years in retirement in the status as single people, most often widows.

In addition to that, women have had particular benefit from two other features of the program, and these benefits often are not given appropriate focus as we talk about Social Security and the privatizers try to make it sound like it is some kind of savings account for retirement. There are very important attendant protections represented in survivors' benefits and represented in disability benefits.

Now, it is, I believe, disproportionately women who benefit from the survivors' benefit. A person, right in mid-career, falls over dead, leaves the other spouse, again disproportionately women, sometimes at home, utterly without revenue stream. I know what I speak of on this one, Mr. Chairman, because it happened to my family. My dad died of a heart attack abruptly, totally without any prior indication, when he was 57 years old. My mom was a homemaker without employment skills. My brother and I were teenagers, and we received the survivors benefit, and it helped our family through the most difficult time we ever encountered. I frankly don't know what we would have done without it. And my mom was able to get some job training, and get into the work force, and my brother and I were able to save the payments that came in and get a college education, and everything that we have been able to do is because the revenue from Social Security allowed it to happen for our family. So these insurance benefits are extraordinarily important.

In addition to that, there are disability benefits. So if you are in the workforce and you become disabled, unable to make your check, you will be able to access through the Social Security program this disability benefit. I used to be an insurance commissioner, and I will tell you that both the survivors benefit and the disability benefits, if you had to privately insure them to cover those risks would cost a bunch of money. There is the value of the—it is estimated that for a 27-year-old worker with a spouse and two children, Social Security provides the equivalent of a $403,000 life insurance policy. If you try, and for that same 27-year-old worker, put a tab on what their disability policy might be valued, it would be $353,000.

So those that want to talk about 2 percent returns and how terrible it is that we are not accruing these benefits, I really do think they need also to talk about the full array of protections that a person enjoys under Social Security and the hard dollar value that represents to American households.

The final aspect, we are going to have our disagreements pretty deeply felt on the structure of Social Security, but what confounds me, Mr. Chairman, is that we are having this debate at a time when this Congress has committed itself to spending money coming in for Social Security on unrelated functions of government. You spoke well of, eloquently about meeting at the White House last year with the prior Administration. The difference between then and now is literally a $4-trillion projection in total revenues coming in between then and now. It has been the most stunning financial turnaround in the history of this country. Now we are taking cash coming in for Social Security, and we are spending it on unrelated functions of government.

Now, whether you are a privatizer or whether you are a system protector, it seems to me that we could all agree this is bad business. We have got to save Social Security dollars for Social Security. It is only going to make our unfunded liability more difficult if we are spending the money on unrelated functions of government. That is why I am kind of offended by notions of paper certificates and all the folderol and the rhetoric. Let's join together and first get back to the position where we are lock boxing those Social Security revenues, not spending them on unrelated functions of government. Once we have gotten them done—we ought to be able to get that done together—then we can talk about how best to structure the system going forward.

Thank you, Mr. Chairman, and Members of the Subcommittee.

Mr. BRADY. Earl, can I ask you a question about your chart?

Mr. POMEROY. Yes.

Chairman SHAW. Let's wait until we get finished the—we will get back to it and everyone will get the chance. If we don't, we are just going to end up without—Mr. McDermott?

STATEMENT OF THE HON. JIM MCDERMOTT, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WASHINGTON

Mr. MCDERMOTT. Thank you, Mr. Chairman.

I am 116th in seniority in the Congress, so there is about 300 and some odd below me. Seventy-five percent of this Congress has never seen, since they have been in Congress, anything but things going up, and it is great timing to talk about privatizing Social Security just when things are going down or there is a real bump in the road, because it gives people some time to contemplate about what we are really doing here. What is really aggravating to me about this is that it sounds a lot like the Contract on America. That was the contract that stipulated, we would have a balanced budget and guaranteed that we would have honest budgeting and so forth, and we just had a President run who said he would not spend one thin dime of Social Security on other things. Now, we are clearly not given that. It reminds me of, I don't know, it may be just part of the country or something, but you know, Lyndon Johnson told us we wouldn't have anybody going on the ground in Vietnam. That is what he told the Senate. And George Bush said, "Read my lips. There won't be any increase in taxes," and then we got a second George Bush who says, "I can cut taxes, and I can balance the budget" and do all this stuff, and clearly it is not happening. And then you have Enron, that promises to their people a pension, and look what happened to them? And now we have the Majority Leader here, promising seniors with a piece of paper. Now, I don't know how much you are going to spend on that paper. The estimate we have is $47 million. We sent out those cards for people to get their tax refunds, and everybody would know that it came from the Republicans.

Well, we are going to do it again. I suppose you put some sealing wax on there, maybe a little gold seal off in the corner and say, "This is your certificate that says you are entitled to a Social Security retirement." What is cynical about that is that there are very few people who are going to get it. Most people are under 65 and this doesn't work for you if you're under 65. So I know the senior citizens are out there, and they are just sitting there at home, you know, kind of rocking in the rocking chair, and they are going to be so excited to get this thing from you, because they will know that it is for you, but anybody else in this country isn't going to get one, because you are not guaranteeing that to anybody else. And I think that is really a cynical kind of thing to be doing to the American public.

Now, Social Security is not an investment and Earl Pomeroy put his thumb on what I was going to say, but I am going to say it again because it needs to be said. It is social insurance. If you are talking about Social Security, you are talking about survivors benefits and you are talking about disability. None of us could afford, most workers in this country could not afford to buy a disability policy that would run for the rest of their life. The cost of that would be prohibitive. The same thing is true on survivors benefits. And people get that, and if you mess with this system and say, "Now put your money out there and see what you get in the end," you are taking away some fundamental things that most of us don't want to think about. You know, when you buy insurance you don't think about your house burning down, your car getting in a wreck, or you getting injured. You don't hope that you are going to collect, but you feel comfortable because you know you have that policy, and people have this policy and somehow it has been turned into an investment that you only get 2 percent on.

Now, the other problem with this thing—there are many problems—but one of them is, between January 1973 and September 1974, the stock market went down by 43 percent. Now, if you got a defined contribution and you have been putting your money in there, and suddenly for a year things go down and it took 10 years, took until 1982, to get back to where people were in 1972. So if you are 65 in 1973 and you got all this money in that thrift savings plan, and all of us here lost 40 percent or so, so nobody here can say he—well, there are a couple of you who were in the old plan, so you don't count, but all the rest of us, we are in that thrift savings plan, and it evaporated.

You are not in that one?

Chairman SHAW. I am in it. I was just asked. We could be in it but——

Mr. MCDERMOTT. Which one was smart and stayed in that one?

Chairman SHAW. But I am going to tell you, those of us who had enough sense to mix it between bonds and stocks didn't lose 40 percent.

Mr. MCDERMOTT. I see. And that is the point. That is exactly the point. All of these estimates are given as though everybody is going to put all their money in the stock market. And smart investing doesn't do that. Those people don't know whether they should put some in the stock market and some in bonds and some in government instruments. I mean, if you went through the Members of Congress and looked at how we put our money in the thrift savings plan, you would learn something about the American public, because we don't know which one to put it in. We walk around on the Floor saying to one another, "Where is your money? Where is your money? Have you moved your money out of this into that?" And you are saying to people all over this country that we are going to put you in the same boat that we are in. Now, I suppose that is pretty good sense, but this is not the only time we had this. We had this fall in March 2000 to April 2001, the stock market fell again by 30 percent.

Chairman SHAW. Try to wrap up.

Mr. MCDERMOTT. Let me just say one last thing. I grew up in Chicago, and we learned very early in Chicago, about 5 years old, never touch the third rail up there on the elevated. And Ms. Dunn knows as well as I do that some senators in 1986 reached out and touched that third rail, and they didn't come back. And I hope that you push this. I want you to run out there and throw yourself on that third rail and hold it.

[Laughter.]

Mr. McDERMOTT. Because you are asking for it. People are not stupid. They look at Enron, and they know that the people in Enron, the only thing those people have is their Social Security.

Thank you.

[The prepared statement of Mr. McDermott follows:]

Statement of the Hon. Jim McDermott, a Representative in Congress from the State of Washington

Mr. Chairman, Members of the Committee, thank you for inviting me to testify before you today.

As I look at the character of the Congress, I am beginning to notice that I'm not exactly the youngest one around. I was elected in 1988, which means that I'm about 116th in seniority around here. So about three fourths of the Congress has only been in this institution during the good times—when the economy has been on a roll and the Congress could avoid tough choices. But some of us know what a recession is all about. Some of us understand the value of security in an uncertain world. Some of us know the value of a defined benefit and an insurance program like Federal-State Unemployment and Social Security. I only hope that the new comers will listen because they will be the ones who will have to live with the decisions we make in regards to Social Security.

With all do respect to my good friend from Austin Mr. Doggett and to Mr. Johnson, I think there must be something in the water that leads some Texans to make really big promises. Good ole Lyndon Johnson stood before the country and told us that he had no intention on sending our boys to Vietnam, the first George Bush asked us to read his lips while he increased taxes, the second George Bush promised to increase defense spending, cut taxes, and balance the budget, and Enron promised its employees a secure retirement while the company was going bankrupt.

So here we are today deliberating on Mr. Armey's plan to promise seniors that there will be no reduction in their Social Security benefits.

When Mr. Armey and other Republicans suggest that Congress, to the tune of 47 million dollars, send out certificates to seniors that say that they will be guaranteed their Social Security benefits it sounds to me a lot like another Republican Contract with America. I believe *that* contract stipulated a balanced budget and guaranteed an honest accounting of our federal budget by implementing zero baseline budgeting. In fact, it was just a short time ago that Republicans and a Texan candidate for President promised not to spend one thin dime of the Social Security surplus by putting the trust funds in a lockbox. It doesn't surprise me that the Republicans have been continually losing seats since 1994.

What does surprise me is this thinly veiled attempt to pave a political path toward privatizing Social Security in the midst of an economic recession. Over the course of the past year and a half, the stock market has collapsed and defined contribution plans have defined an inadequate retirement for millions of Americans. Just last week we were all upstairs at a Ways and Means hearing to discuss the problem with the increase in risky defined contribution pension plans and the decline in safe, government insured, defined benefit pension plans. In fact, many of the witnesses and Members emphasized that the security of a person's retirement relies on the certainty of Social Security benefits, because as tempest of a collapsing economy illustrates, the stock market is no safe harbor.

Some of my colleagues may argue that if we allow people to invest their payroll taxes in individual accounts that people will get a better return on their "investment" than Social Security. This is a false argument. First, Social Security is not an investment, its insurance. Second, their predictions are based on averaging those who win in the stock market and those who lose. Nobody loses under Social Security. Privatizing the program would allow hundreds of millions of Americans to lose their retirement investments. If anyone doesn't think it's possible, just take a look at what happened between January 1973 and September 1974. The stock market declined by 43 percent and did not return to its 1972 high for almost 10 years. Or, let's look more recently. Between March 2000 and April 2001, the S&P 500 fell by nearly 30 percent. If Social Security had been privatized, and a worker had his individual account invested in a fund that mirrored the S&P 500, his private retirement account would have declined in value almost 30 percent. Is that the kind of security that privatizers are supporting?

Most privatizers will say "no" they are "championing privatizing plans that would guarantee benefits to seniors." But all of us know that the only way you can guarantee benefits is by obligating money from the Federal Treasury, which is exactly the program we have today. There is a reason that the Secretary O'Neill doesn't invest any federal trust funds in the stock market, it isn't safe or prudent.

Aside from the fact that privatizing Social Security is neither necessary nor proper there is another thing that troubles me about privatizing this program. The Constitution expressly gave Congress the power to regulate commerce. If, however, our nation's most important social insurance program is invested in private enterprise, how will Congress balance the interests of the capital markets, consumers, and a nation, against the interests of individual Social Security accounts? That is, if everyone's Social Security was invested in Microsoft, would Congress have advocated for the Justice Department to review an antitrust issue? If everyone's Social Security was invested in Enron, would Congress try to somehow bail out a bankrupt and hopeless company? For those of you who think that Congress is already employing too much regulatory power just think what will happen when 300 million Americans want to reduce the risk of their investments by regulating or not regulating commerce.

Social Security is America's most successful government program. On its own, it lifts 11 million seniors out of poverty. It is universal, efficient, portable, and provides seniors with a defined benefit. But, as all of you know, the changing demographics of our workforce are placing an enormous burden on the program and we must address the long-term solvency issue the program faces. This is not an insurmountable obstacle. Just last year, the Congress passed a tax cut that, if made permanent, would double the 75-year budgetary shortfall that Social Security faces.

If Mr. Armey and his supporters would retreat from their efforts to privatize Social Security, we could, I think, quickly find a way to address the financial challenges the system faces. But, unlike Arthur Anderson, we have to be honest about the accounting and budgetary assumptions we use, and we'll have to quit substituting a revenue stream based on a progressive tax with a revenue stream that relies on a regressive tax by actually putting the Social Security Trust funds in a real lockbox. Thank you.

Chairman SHAW. Mr. Foley?

STATEMENT OF THE HON. MARK FOLEY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA

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

I kind of regret that we always have to have a Social Security discussion and start pointing fingers at who is going to destroy it first. My grandmother came to this country from Poland. Her husband had died, and she raised two children on her own, my mother and her sister, and she depended on that Social Security check. I know most Republicans like me have parents and grandparents who depend on that Social Security check. So for people to infer somehow as Republicans that we came here to undermine and ruin the futures of seniors is absolute bull, and I reject it, and I reject the politics of it. I am tired of hearing about Enron because a few crooks stole out of that company and destroyed that company. Nobody makes the analogy, if they had invested $100 or $1,000 in GE where they would be today or a $1,000 in Johnson & Johnson.

All we are trying to talk about is a reasonable debate of seeing how we can fix this vital valuable program. Even the "Palm Beach Post Times" editorialized positively about a program Congressman Shaw designed on Social Security. This is a newspaper that is liberally based, if you will, and definitely doesn't usually support Republican proposals, but indicated, after studying Mr. Shaw's proposal, that it deserved merit and deserved consideration.

I thank Mr. Shaw, the Subcommittee Chairman, and my Florida colleagues on the Committee on Ways and Means. I represent the seventh oldest population Medicare district in America. The American people, those receiving benefits as well as those paying into the system, have legitimate concerns as to the future solvency of the system and the delivery of the promised benefits. That is the reason I am here today. The Chairman and both represent congressional districts with large senior populations. In addition, it is imperative that Congress and the Administration reassure American workers that their future benefits from the system are secure.

As the Members of the Subcommittee know, the Social Security system needs improvement to avoid insolvency, and frankly, the system needs to address inadequacies in how it treats women who left the work force to care for their children. That is why I applaud the Chairman, Mr. Shaw, and the Subcommittee for boldly addressing this politically sensitive issue.

The Social Security system cannot cope with the upcoming demographic time bomb facing our country when the baby boom generation reaches retirement age. The Social Security trustees estimate cash flow deficits in the system starting in 2016 with a bankruptcy date of 2038. It is also estimated that the system will only be able to pay 73 percent of promised benefits. Absent any major reform, the Nation will be faced with a series of unpleasant choices, benefit cuts, tax heists, increased borrowing, or cuts to other governmental programs.

We must look at ways to improve the system such as creating optional, optional, optional—can I repeat that enough—personal retirement accounts as a supplement to the traditional benefit system. My colleague mentioned 401(k) plan that we have in Congress. I don't see any Member of Congress rejecting the government's assistance in creating a personal savings account for our future. Why not at least explore the potential, explore the potential of allowing seniors to make choices?

Mr. Kolbe, Mr. Stenholm, and others have creative ideas that bear discussion. That doesn't mean we accept them. It doesn't mean we embrace them. But to sit here and bury our heads in the sand afraid of that third rail is misfeasance, nonfeasance, and malfeasance. In these personal accounts, workers, not the government, should be able to choose where to invest a portion, a portion of their retirement savings. The system must be structured in terms of preventing fraud and unsound investments like Enron.

As I mentioned earlier, benefits for women must be changed to effect realities in today's society. Women are heavily dependent on Social Security benefits during retirement because they often have little or no pension savings or other sources of income. Any plan must improve benefits to adjust to the unique situations that affect divorced spouses and disabled widows. Without reform we are potentially committing the Nation to a massive new debt burden, tax increases, and benefit cuts. I urge the Subcommittee to move quickly on major reform.

Again, I thank the Chairman, and I thank each Member for being willing to talk about something so vitally important to the Nation. It is about fiscal stability. It is about financial security. It is about not only this generation now on Social Security, but kids born as we speak today. I think if Democrats and Republicans are serious about trying to fix the system, we can. It doesn't have to be who runs this House. It is about who helps the seniors now and in the future.

Thank you.

[The prepared statement of Mr. Foley follows:]

Statement of the Hon. Mark Foley, a Representative in Congress from the State of Florida

Good Morning. I thank Mr. Shaw, the Committee Chairman and my Florida colleague on the Ways and Means Committee, for allowing me to testify before the Committee on this important issue of improving Social Security.

The American people, those receiving benefits as well as those paying into the system, have legitimate concerns as to the future solvency of the system and the delivery of promised benefits. That is the reason I am here today. The Chairman and I both represent Congressional districts with a large population of seniors. In addition, it is imperative that the Congress and the Administration reassure American workers that their future benefits from the system are secure.

As the Members of the Committee know, the Social Security system needs improvement to avoid insolvency and frankly, the system needs to address inadequecies in how it treats women who left the workforce to care for their children. That is why I applaud the Chairman and the Committee for boldly addressing these politically sensitive issues.

The Social Security system cannot cope with the upcoming demographic timebomb facing our country when the Baby Boom generation reaches retirement age. The Social Security Trustees estimate cash flow deficits in the system starting in 2016 with a bankruptcy date of 2038. It is also estimated that the system will only be able to pay 73% of promised benefits.

Absent any major reforms, the Nation will be faced with a series of unpleasant choices: Benefit cuts, tax hikes, increased borrowing, or cuts to other government programs. We must look at ways to improve the system such as creating optional personal retirement accounts as a supplement to the traditional benefit system.

In these personal accounts, workers, not the government, should be able to choose where to invest a portion of their retirement savings. This system must be structured in terms of preventing fraud and unsound investments.

As I mentioned earlier, benefits for women must be changed to affect realities in today's society. Women are heavily dependent on Social Security benefits during retirement because they often have little or no pension savings or other sources of income. Any plan must improve benefits to adjust to the unique situations that affect divorced spouses and disabled widows.

Without reform, we are potentially committing the nation to a massive new debt burden, tax increases, and benefit cuts. I urge the Committee to move quickly on major reform. Again, I thank the Chairman and the Committee for allowing me to testify today.

Chairman SHAW. Thank you, Mark, and thank all of you for being here, and for testifying before your colleagues of this Subcommittee.

Mark, I agree with everything that you said, and particularly your statement regarding nonfeasance and malfeasance.

Dr. McDermott, we were not sent here to get reelected. We were sent here for responsible government. But you are absolutely right, Social Security is the third rail of politics, and if it is misrepresented, many of us might not come back. But if the truth be known, the third rail of politics may very well switch to those that do nothing, that choose to do nothing. The problem that we have is that in 2016 we are not going to be able to have enough cash to honor the obligation that we have to America's retirees. It is just that simple.

Mr. McDERMOTT. Mr. Chairman, I agree with you, but I don't think sending out a certificate——

Chairman SHAW. So we need to work together. Let me comment too on the other thing. I don't know of any of the plans that involve personal retirement accounts, and the one that I have as a supplement, it doesn't take anything out of the trust fund, it doesn't touch it, as Mr. Foley correctly characterized. It requires pre-approved investment houses. It required wide diversification of investment, and it requires a 60/40 split between stocks and bonds, and quite frankly, that is why I have that in my own thrift savings account, because I think that is just the responsible way to go. And it allows American workers to choose and change that investment house in accordance with the performance that they have. Labor unions can set it up, and if they qualify and they are approved by the Social Security Administration and the panel set up, they can very well administer these funds for their workers. The workers are not taxed for this. This comes out of the general fund, which brings me to the question of how we are using the surplus.

The tax cut was responsible for 12 percent of the loss of revenue. Expenditures were responsible for about 15 percent. The rest of it was because of drop in revenue. Now what——

Mr. POMEROY. Mr. Chairman, what timeframe does that reflect?

Chairman SHAW. Well, that is the last budget. Now, the problem——

Mr. POMEROY. Not 10 years. Ten years I guess the figure is about 42-percent tax cut.

Chairman SHAW. Well, I am just telling you where we are as far as this particular surplus is concerned.

Now, the President has been mischaracterized here because when he was on the campaign trail, what he was saying was that without a recession, without a war, and without a national disaster, that he was committed to preserving the surplus, and he had the trifecta. He got them all.

So at this point, is balancing the budget and protecting the surplus important? You are darn right it is.

But is it more important to properly equip our soldiers in time of war? Yes. Is it more important to get people back to work and stimulate the economy so you can get our revenue back up? Of course it is. It is the responsible thing to do, and I think that is the question that we are going to be facing when we try to pass a budget this year, and I think it is going to be tough because people are going to get beat over the head. People are saying we are going to be going into the Social Security surplus. But I don't see how it can be avoided this year and meet our responsibility and commitment to do the things that we have to do. It would be a crime and certainly a blot on this Congress if we were not to properly supply our soldiers.

Now, if we can do all of this and protect the surplus, we should do that, but we have got to first of all get America back to work, and we have got to be sure that we are using the maximum effort of the might of this government in order to prosecute the war that we are presently involved in.

Yes, sir?

Mr. POMEROY. May I respond, Mr. Chairman?

Chairman SHAW. Yes, sir, please. I am not sure you disagree with me. I hope not.

Mr. POMEROY. I think that we need to prosecute the war, and I acknowledge that the turndown in the economy certainly impacted budget projections, but the major factor over the next 10 years was the tax cut passed last May.

I thought it was very interesting when the House passed a sense of Congress a few weeks ago that all future—that kind of reaffirmed commitment to all future phase-ins of the tax cut must be implemented as initially enacted. Now, we can't bind a future Congress, but it was a place for the majority to once again go on record and affirm all aspects of that tax cut now that we know that that will mean the continued expenditure of Social Security money on other functions of government. Now that we know that basically that tax cut precipitates a raid on Social Security Trust Funds, that only makes——

Chairman SHAW. No, it does not.

Mr. POMEROY. That only makes the situation——

Chairman SHAW. Wait. Is the trust fund affected by this?

Mr. POMEROY. Well, Mr. Chairman——

Chairman SHAW. Is the trust fund affected by this? Are there less Treasury—is there cash in the trust fund? Of course not. Are there going to be less Treasury bills in the trust fund? No. So it has no effect on the trust fund.

Mr. POMEROY. On the balance sheet of this country I believe it is absolutely dollar-for-dollar impact. If you take cash coming in for Social Security, Mr. Chairman, and you spend it, it is gone. If you take cash coming in for Social Security and you pay off debt you improve the financial position of the country——

Chairman SHAW. Reclaiming my time. Mr. Pomeroy, if we were to say that deficit spending was raiding the trust fund with the 40 years of deficit spending that this country went to before the Republicans took control of this country, there would be no trust fund.

Mr. POMEROY. Mr. Chairman, I joined you last year in voting for lock boxes so we didn't raid the trust fund any more, and——

Chairman SHAW. Didn't have anything to do with the trust fund.

Mr. POMEROY. I am absolutely sick about the fact that these deficits put us back in a raid on the trust fund.

Chairman SHAW. I hope you understand how the trust fund operates, but it does not have any cash in it. There is no money in the trust fund. It is simply Treasury bills drawn on the Treasury for the moneys that goes as a way of surplus into the general fund.

Mr. POMEROY. Mr. Chairman, you have been indulgent with this debate, and I appreciate it, because I think it is so important. Cash coming in from Social Security that is not applied on reducing the debt held by the public, that is instead just plain old spent on other functions of government, will in the end make it harder for us to meet our commitments on Social Security. And I think regardless of whether you want to go with your plan or whether or not you want to stick with the kind of guarantees we now have, we all could agree on that. We are spending this money, and it is going to make it worse.

Now, the President has proposed, Mr. Chairman, in his budget, compounding the problem even further by making the tax cuts permanent, you actually have a $4-trillion impact next decade—and if someone would turn that poster around please—that is absolutely putting us on a course for a fiscal train wreck because as you can see with the line in red, the Social Security revenues coming in tail off, as you have noted, but the loss in revenues to the general fund accelerate next decade by making the tax cuts permanent to the tune of $4 trillion. So at a time when even the Majority Leader is talking about the subsidy from the general fund revenues into Social Security, we don't have the general fund revenues because they are gone.

Chairman SHAW. Don't try to make this a cause and effect. The tax cut that the Congress gave the American people has nothing to do with the surplus going down. The surplus is going down because the baby boomers are coming into the—Mr. Pomeroy, certainly you understand——

Mr. POMEROY. Mr. Chairman, how can you say that we—we just cut the heck out of revenues of this country and that has got nothing to do with the surplus going away? It caused the surplus to go away, and over 10 years it is undeniable that it is the single biggest cause of why we are spending Social Security dollars to run the rest of the government.

Chairman SHAW. The surplus is a surplus regardless of whether we spend it or don't spend it. The surplus remains the same. Now you can argue that they are spending the surplus, but the surplus is defined as that moneys that comes into the Social Security Trust Fund that is not needed to pay out benefits, and that goes into the general fund.

Now, if we spend it or if we cut down on general revenue by way of tax cuts and go into the surplus, then that is certainly an argument that you can make. But the decrease in the surplus itself has nothing to do with the tax cut. The surplus is actually going to go away in 2016 because there won't be enough cash coming in to the trust fund to pay benefits. And that has nothing to do with the tax cut. It has absolutely nothing to do with the tax cut.

Mr. POMEROY. Mr. Chairman, because of the tax cut we don't have revenues that we used to have in the general fund, and in fact, the general fund——

Chairman SHAW. That is correct.

Mr. POMEROY. Doesn't operate in balance any more, and when the general fund isn't in balance, you have got to find the cash elsewhere. Unfortunately, we are finding the cash from the moneys coming for Social Security. We take it in on Social Security, we ship it over, and it is spent on unrelated functions of government. Now in the end, that will make it harder for us to meet our commitment to Social Security.

Chairman SHAW. I think your reasoning is circular because the tax cut has nothing to do with the size of the Social Security surplus. Now you can argue that you are going to have to spend more of it because of the tax cut, and that is a legitimate argument if revenues don't turn around. That is a legitimate argument, but the——

Mr. POMEROY. Mr. Chairman, do we agree that if you are spending Social Security dollars on something other than Social Security, you are making your problem worse. Do we agree on that?

Chairman SHAW. Well, I agree to the point that if we have more revenue, we will have to go in debt less in order to take care of our commitments under Social Security, but in any event, we are going to have to go in the red. Every plan that is out there does it.

I am going to yield now to——

Mr. POMEROY. Thank you, Mr. Chairman.

Mr. MCDERMOTT. Could I just ask one question before we move off? You say we are going to go in the red. One of the things I don't understand about your plan is where do you get the $120 billion in the first year to start your program? I mean, if you are allowing the money coming in to be diverted into the private, it is going to pay people who are already in the system——

Chairman SHAW. It comes out of general revenue.

Mr. MCDERMOTT. But——

Chairman SHAW. General revenue.

Mr. MCDERMOTT. One hundred twenty billion dollars more?

Chairman SHAW. Is that the figure, $120 billion, first year? It is about $80 billion, but it does—it is $80 billion. It comes out of the—in my plan it comes out of general revenue.

Mr. MCDERMOTT. So we would be going further in debt to get that $80 billion because the revenue isn't coming in. I mean, we are going to be in debt——

Chairman SHAW. Well, according to where the projections are. But let me say this, and I think this is very important, that the Social Security surplus will be used to put in these individual accounts, which is what—and nobody can argue with the fact that what is wrong with using Social Security money to save Social Security instead of dumping it into the general fund? And I think that is a very good idea, and I think it makes perfect sense.

You know, if you are paying into a private pension plan, the corporation is administering, they are not going to pay their general—they can't spend it on anything they want to. They should spend it to invest in you and your pension fund, and that is exactly the same philosophy that we are using.

Now, beginning in about 10 years, 8 or 10 years, there won't be that surplus, and at that time we are going to have to go into general revenue for a period of time. But it is projected, under the plan that I have out there, that over 75 years it will actually produce a surplus.

Mr. Matsui?

Mr. MATSUI. Thank you, Mr. Chairman. If I could just——

Chairman SHAW. Look at it. You might like it.

Mr. MCDERMOTT. I won't be here in 75 years.

Mr. MATSUI. I hope that is not on my time.

Chairman SHAW. Our grandkids will.

Mr. MATSUI. Mr. Chairman, here is what the problem is. Here is the Office of the Actuary, Social Security Administration, December 10, 2001. So this is a report that is about 4 months old, and there may be some update, but it has not changed, much difference.

If the Shaw bill came into effect this year for being effective in 2003, the first year borrowing would be $109 billion. And then the second year borrowing in 2004 would be $111 billion——

Chairman SHAW. Would the gentleman yield for a second on that? Because I want to agree with you. Yes, I misspoke. It was $80 billion under the other one, and the reason it is up to $109 billion is that we put 3 percent in for low paid wage earners, so your lower economic people actually would get a better hit than the higher income people.

Mr. MATSUI. If this could not be on my time, I would appreciate that. And then in year five it is $359 billion. Year 2006, which is only 4 years from now, it is $637 billion and so it accumulates to— in the next 20-plus years, about $3.6 trillion. If there is no funds to pay for it, and you have to borrow it, it comes to $8 trillion. So in the next 30 years your bill will cost the general fund plus the interest costs in there, $8 trillion. I need to know how you are going to come up with that money, because we should really put your bill—Mr. Foley supports it—we should put that bill on the Floor of the House in the next couple weeks so we can debate it and then vote on it, because if in fact it is a bill you support, then we should really move forward.

Mr. Armey and Mr. DeMint have a bill that will cost $22 trillion over the next 75 years, and $8 trillion over—$9.5 trillion over the next 30 years. We should put their bill on the Floor so we can vote on that bill as well. We need to vote on these bills that you have introduced and you are saying it is so wonderful, so we can find out where the support level is. This is what the frustration is.

And let me mention, Mr. Pomeroy, you are absolutely right, we can't look at Social Security in terms of 1 year. You can't talk about what the cost of—you know, the percentage of the reduction of the surplus in 1 year, because Social Security is a 75-year program. We all agree with that.

The cost of the war on terrorism plus the defense spending increases that are being projected is 8 percent—this is CBO numbers—additional spending 9 percent. The estimates on the budget numbers is 43 percent, and you know, that should be—people should be held accountable for that because a 10-year cycle, you are supposed to take into consideration recession. You can't just say, oh, a recession occurred, so we have to reevaluate these numbers. These numbers should go on for the next 10 years, and there is going to be a drop in the economy. That should be taken into consideration, but the tax cut is 41 percent of the reduction in the surplus over the next 10 years. And it is going to be more than that because the President wants to make this thing permanent, as Mr. Pomeroy said. And you couple that with the fact that your bill costs $8 trillion over the next 30 years, and your number, $637 billion— where are you going to get the money to pay for your bill?

And that is why we need really to debate this. You need to put your bill on the Floor of the House so we can debate it, vote on it, and send it to the U.S. Senate. That is what we really need to do. I mean, will you do that for us so we can actually get this out there? Because I think, frankly, as Mr. McDermott, Mr. Pomeroy, and others have said, the real problem we have is that after the election you guys are going to move on Social Security, and with the $8 trillion you are not going to have, so you are probably going to have to cut benefits, and that is what we are really concerned about, because you won't have the money to pay for your program and the privatization, you are going to move ahead on privatization anyway, and they you are going to have to cut benefits.

That is what the frustration that we have is, and that is why you have got to bring your plan out now before the election so we can debate. Just take it off the table so it is not part of an election debate.

Now, let me just conclude by asking Mr. McDermott one question, if I may. What do you believe in terms of the whole issues of Mr. Shaw's plan? Could you go into that in some detail?

[Laughter.]

Mr. MCDERMOTT. How many hours do I have?

Everybody likes the idea of having choice and all, but the whole reason we had Social Security put together in the first place was because people weren't able to take care of themselves, and we decided as a society we would do that. And this individual accounts is basically splitting this up and saying, "If you're smart, you'll do well, and if you're not so smart, you won't do so well." And if you do not guarantee that basic benefit——

Chairman SHAW. Well, I do. You had better——

Mr. MCDERMOTT. I understand that, but you also have to come up with $100 billion to start this thing. If you are willing to tax to get that kind of money, I am willing to do it. Everybody in here gets the same tax cut. Every May everybody stops paying their Social Security tax because we all get up to the line of whatever it is, $49,000 or—I have forgotten the number—$60,000, $80—well, whatever it is—and suddenly we don't have to pay that tax any more. If we raise that up a little bit and put it up to $125,000 or something, why, you know, we would have money. There is a lot of ways you can deal with this problem if you are serious and you want some additional dough, but if you are just going to try and take it out of the general fund, it simply is not possible.

Chairman SHAW. Well, I would like to tell the gentleman, for the next 10 years under the Shaw plan, we only use up half the surplus, so——

Mr. MCDERMOTT. Half of the surplus?

Chairman SHAW. Half of the Social Security surplus. So I ask you the question. What is wrong with taking the surplus—now you can say, okay, fine, but you have already spent the surplus. Well, that is deficit spending. So if we say, let's set the Social Security surplus aside and use it to save Social Security instead of spending it on something else, and if we are going in the red and we are borrowing more money, let's have an honest debate upon that, and I think Mr. Pomeroy will be satisfied in that regard.

But the program that I have put forward is, one, it is strictly voluntary. I think everybody is going to take it though. I can't imagine anybody turning it down. The investments, or some investment houses are going to do better than others, but they are going to be pre-approved investment houses. Nobody is going to manage their own money because most people just simply haven't had enough experience in order to do that.

Mr. MCDERMOTT. How do you deal with the problem though of the Federal Government on the one hand regulating Commerce and the Security and Exchange Commission (SEC) and all of this over here, and on the other hand you got everybody's pension in your pocket? You are going to have the Federal government trying to control what is going on.

Chairman SHAW. We don't. No, I am getting the Federal government out of it. Now, you will hear from Jerry Nadler. He is here.

Mr. MCDERMOTT. You are willing to let us have no SEC?

Chairman SHAW. He is going to be testifying, and he wants the government to directly invest, and I am looking forward to his testimony in that regard. But to do nothing involves, over the next 75 years a $20-trillion deficit. We can't go forward with that.

Mr. MCDERMOTT. We didn't have an SEC before.

Chairman SHAW. Now, everyone agrees the cost of doing nothing is unacceptable, unacceptable. If anybody here—are you for just continuing the same program and not doing anything?

Mr. MCDERMOTT. No, we are going to have to do something, but we——

Chairman SHAW. Now, Mr. Matsui——

Mr. MCDERMOTT. What is coming in we ought to——

Chairman SHAW. Mr. Matsui is asking me why don't I put this down on the Floor? Well, we are hearing the argument. We are seeing right now exactly what is going to happen. We know right well. All of us have been in politics. You explained it as the third rail of politics. And the question is, will we be able to get the story out so that people really understand? People, once they understand, they are going to demand it. We have already started having hearings on college campuses, and we are going to have more. I want the young people to know. Young people should be madder than hell about what is going on because they are going to—they are the ones that are going to suffer.

Mr. MCDERMOTT. Are you going to send them a certificate? No, you are not. You are only going to send a certificate to old people. Send it to the 21 year olds——

Chairman SHAW. I am going to give to the younger workers——

Mr. MCDERMOTT. They won't believe it.

Chairman SHAW. Something that they have and they can own and will be inheritable wealth. And you know something else? This is the only chance to accumulate any wealth that poor people will ever have in this country. Why can't we join together and do this? There is nothing wrong with this. It is the right thing to do. And if the Democrats have a better plan, I will have a hearing on it, and I will adopt it. There is no question about it. But doing nothing is unacceptable. We have got to do it in a bipartisan way. We have got to have the American people to trust us on this rather than having the daylight scared out of them that we are spending their Social Security dollars on the shaky stock market. I mean, this is—fine, come up with a better answer. I will be glad to listen to it.

The problem is, there is none. No one is coming up with a better answer. If they have one, let's go with it. What is the order of witnesses? Mr. Hayworth?

Mr. HAYWORTH. Thank you, Mr. Chairman.

Well, this has been an interesting morning, because the desire of the Majority Leader was quickly laid aside. Perhaps the calendar has presented a new reality. The circumstances in which we find ourselves were irreparably changed by September 11, but it seems there are more folks here concerned about November 5. And I dare say, just given the dynamic here, that someone could come up with a plan to cure the common cold and combine that with world peace, and there would be, given the nature of the calendar, plenty of folks who would try to find fault with it just being the nature of the adversarial relationship.

Because what we have seen today is, despite the best efforts of the Chairman, who has laid forth a proposal to open debate, a national debate, there are those who take issue with having that debate in its current form and say let's rush something to the Floor. I dare say we could safely assume if something were going to the Floor, there would be a problem with moving too quickly, just the dynamics of the process.

I am sorry my friend Dr. McDermott left because I was left in quandary but on one hand people are not stupid. But on the other hand, they shouldn't have any control over their future. Well, such are the vagaries of psychiatry.

Congressman Pomeroy, thank you for being here. Perhaps you can answer now, since you bemoaned the plan and seem to advocate or tell us that tax cuts are bad and bring us the—here we go, the visual aid. I wish television were here for you, my friend, because such wonderful visual aids, prepared by the Democratic staff of the House Budget Committee, not only questions in terms of accuracy applying in this debate, but I am just so sorry the TV cameras aren't here to help with this visual aid today.

Well, quite simply, Earl, my question is this: If tax cuts are so bad, what is your suggestion? Is your plan to raise the payroll tax? That seemed to be what my friend, Mr. McDermott, was suggesting. Would you like to raise the payroll tax now?

Mr. POMEROY. Congressman Hayworth, no, I certainly do not plan to raise the payroll tax, and really the chart I prepared not for television cameras, but to help us visualize what I think is a fiscal train wreck that we are heading into next decade.

Many of you have talked about the shortfall that we will encounter by the year 2016, at which time the general fund needs to start making do on some of these IOUs that we have been shipping over because we do not have enough coming in on the Social Security revenues any more. At the very same time, the majority has put in place a plan that is going to cause a hemorrhage of revenue into the general fund.

So, at the time the general fund has got to top off Social Security, the general fund doesn't have the revenues to do it.

Mr. HAYWORTH. I appreciate my friend coming with a 10-year projection, a 20-year projection, in fact, as I am corrected by my friend from Wisconsin. Of course, we should point out for the record, it deserves amplification, our Chairman pointed out twice earlier, a 10-year, indeed, 20-year projection didn't mean a thing in previous Congresses, when the goal was always more, and more, and more spending.

I trust you don't share that concern, in terms of the spending question. You have some concerns about spending, but I don't know, I don't want to speak for you. Let me just ask you this question: In terms of overall revenue, both with the Kennedy—JFK tax cut 1963 and the Reagan tax cut of the 1980s, did revenues to the Federal Government increase? Overall, did revenues, tax revenues, increase to the Federal Government? Because this gets to the heart of the fundamental debate.

Do we grow the economy by offering opportunity to investors and to entrepreneurs to create jobs, to increase tax receipts for the government? Even dealing with the challenges we are going to have demographically, will that help the economy or, instead, do we sit back, and there are those advocates here of the radical redistribution of wealth, believe that the economy is a static model, where tax relief does not encourage growth, and thereby we maintain the status quo, which seems to be part and parcel of what is going on here because, quite simply, despite all of the calls for a plan, we have yet to see a plan offered by the minority.

Mr. POMEROY. Congressman Hayworth, I think that the ideological clash is interesting and kind of reflects the excitement of making law here at the Capitol, but I do think that it will be better done if we recognize the underlying numbers, and so we are not making up numbers, we are agreeing that the Congressional Budget Office, for example, is a reasonable forecasting place, in terms of telling us the actual dollars that we are going to have to deal with.

Mr. HAYWORTH. My question was, historically, did the tax receipts under both Jack Kennedy and Ronald Reagan, in 1963 and the 1980s, did, overall, tax receipts increase to the Federal Government in the wake of those tax cuts?

Mr. POMEROY. There is a very robust debate on that, Congressman. In fact, as you know, following the 1981 tax cuts, Congress quickly had to enact some tax increases, in light of the soaring budget deficits.

So, you know, that is an interesting historical point, but——

Mr. HAYWORTH. Because we failed to learn the lesson of spending.

Mr. POMEROY. The Congressional Budget Office has told us that, in light of what we are now on, we are going to be spending Social Security dollars on other functions of government for the bulk of this decade. Clearly, that cannot help the situation.

Mr. HAYWORTH. Well, again, for the record, I would point out, not only as our current President said during the time of his campaign, but those of us who advocated a Balanced Budget Act, who continue to advocate put language in to say, in times of war or national emergency, obviously, we would have to deal with the priorities of national survival, and I would point out to the assembled Subcommittee and our distinguished guest panelists today that you cannot have retirement security and financial security without first a national security and a vibrant plan.

I thank the Chairman.

Chairman SHAW. The time has expired. We will call on Mr. Lewis, but before I do so I want to let everyone here know the intention of the Chair is to recess between 12:00 and 1:00 and reconvene the hearing at 1:00.

Mr. Lewis?

Mr. LEWIS. Thank you, Mr. Chairman.

You know, we keep asking, Mr. Pomeroy, what the Democrat plan is, and I know Mr. Gephardt in his speech last night talked about our secret plan. It seems like the Democrat plan is so secret that even the Democrat Members don't even know what it is.

This is preposterous that you have nothing to offer but criticism. We are putting plans on the table, but you have nothing to offer but criticism. Now I have a 19-year-old daughter. In 2016, she is going to be 35 years old, right in the middle of her career. If we do nothing, and in 2038, she is going to be 57 years old, if we do nothing, what is it going to cost her? What is it going to cost her?

And let me ask you this too: What were the projections in 2000 for the decline of the Social Security payments, the Social Security, it is going to start down in 2016, what was it in 2000, as opposed to today? You know, you are talking about the tax cuts. How has that changed from 2000 until today? Is it a big difference between the decline in Social Security in 2016 and bankruptcy in 2038? What difference has the tax cut made between those two dates?

Mr. POMEROY. If you look, in terms of——

Mr. LEWIS. I think it was the same date. I don't think that has changed. I think 2016 is the same date, 2000, 2002, I don't think it has changed.

Mr. POMEROY. Congressman Lewis, I thank you for your concern about what happens to the next generation that will be having to pay the tab.

Mr. LEWIS. It is my daughter and my son.

Mr. POMEROY. We have heard the Majority Leader, and I believe he made a very sincere personal pledge that the benefits will never be——

Mr. LEWIS. But what I want to know is what are you offering to protect my daughter and my son? What is the Democratic party offering to protect them in 2016 and 2038, when there is going to be a $23-trillion deficit in Social Security?

Mr. POMEROY. We have a commitment to reduce the debt held by the public and prepare financially this country.

Mr. LEWIS. But is that going to help? Will that save Social Security? Will it save Social Security?

Mr. POMEROY. You know what, I am absolutely confounded by the majority that wants at once to talk about the burden on the next generation at the very time they do nothing to eliminate the debt held by this country, which means when they are——

Mr. LEWIS. Oh, I think the majority has paid the debt down by half a trillion dollars over the last few years.

Mr. POMEROY. We could have paid the debt off by 2008 and left your children and my children a much stronger country, from a fiscal standpoint, to deal with the exploding entitlement obligations that will happen when baby boomers retire.

Mr. LEWIS. Pardon me. Were you here in 1994?

Mr. POMEROY. Yes sir.

Mr. LEWIS. When I arrived on the scene here in 1994, you all had $200 billion deficits running as far as the eye could see, and we had a $5-trillion, $5.5-trillion debt. What were you doing about it then?

Mr. POMEROY. Congressman Lewis, I voted for a budget plan in 1993 that was a major component of how we eliminated that deficit.

Mr. LEWIS. Do you mean the tax increase?

Mr. POMEROY. You bet it had a tax increase, and it got the deficit down.

Mr. LEWIS. No, wait a minute.

Mr. POMEROY. I just absolutely love the way that the Democrats——

Mr. LEWIS. After the tax cut, you all had projections of $200 billion deficits as far as the eye could see, after the tax cut.

Mr. POMEROY. Congressman Lewis, here is how we explain this——

Mr. LEWIS. That is right.

Mr. POMEROY. We tackled the deficit——

Mr. LEWIS. I am interested in that.

Mr. POMEROY. We talked the deficit, the financial markets responded, long-term interest rates came down, and the economic recovery was fantastic, beyond what either party projected. In addition to that——

Mr. LEWIS. When did it happen?

Mr. POMEROY. In a bipartisan way——

Mr. LEWIS. When did that start to happen?

Mr. POMEROY. In a predictable period of time following the lowering of long-term interest rates. Long-term interest rates, if you look from the beginning of 1993 to the end of 1994, which would be the end of that first Congress, came down and were directly linked to the strength of the economic recovery. Both parties worked together thereafter it, I have served with you now for several terms, to hold spending in check. We maintained the PAYGO system of fiscal discipline.

Mr. LEWIS. I didn't see a lot of spending being held in check in 1994 when I got here, and the minority, your party was in charge then. I didn't see a lot of restraint there in spending.

Mr. POMEROY. Oh, Congressman Lewis, I am afraid that you misunderstand the application of the 1990 budget discipline, which put pay-as-you-go requirements in on Federal spending, as well as spending caps. We maintained those caps in the 1993 budget. We had hard caps, and we lived within them, and they were a major part of restoring financial integrity to this country.

But, in any event, we are now——

Chairman SHAW. The time of the gentleman has expired.

Mr. Becerra?

I am going to try to wrap this part of this thing up before this vote so that we can come in with the next panel as soon as we reconvene. Brevity on both sides would be appreciated.

Mr. BECERRA. Mr. Chairman, because of the vote and because we are running somewhat late, I will be brief, and all of our colleagues——

Chairman SHAW. And we are down to one victim. [Laughter.]

Mr. BECERRA. And Mr. Pomeroy has been very gracious to stay so long in answering questions.

I would like to just make a couple of clarifications. In some of the discussion that has occurred, we have heard the word "Social Security surplus" mentioned and, in some cases, it has been confused with the unified surplus, and at the same time Social Security surplus has been used and confused with the Social Security Trust Fund. We have to make sure that we are clear that the trust fund is very different from the Social Security surplus. The surplus is what comes in, the hard cash that contributors, workers are contributing every day that they work, and it goes into the system. It is a surplus.

Once it goes into the trust fund, as I think, Mr. Chairman, you try to point out, we purchase that money and exchange Treasury certificates for that surplus money. Those Treasury certificates are there to guarantee that in the future those monies paid in will be available to pay out for future beneficiaries. But those moneys, through the trust fund that are now property of the Federal Government because the trust fund is holding securities in its place of that money, is spent, is spent to the point that today we know that we are in deficit, and we must use every single cent of what was a Social Security surplus that went into the trust fund and is now being spent to maintain the operations of government.

I think the point that Mr. Pomeroy and some other folks have tried to make is that what was a Social Security surplus which could be used to save Social Security is not available because it is spent. It is like a passbook account. You deposit money in a bank, you have got a book that says you have got "X" amount of dollars in there. The bank may put it in an investment like Enron. If that investment goes under, like Enron, you go in to collect on your passbook, and if that bank doesn't have any assets because of Enron, that bank can't pay you back.

So what was a surplus and you put it into a passbook or you put into the Social Security Trust Fund, it is gone if it is spent, and we have to find some way to pay it back, and that means general revenues which could means cuts in other programs if you try to pay back on that Social Security money.

I think the point that was made with regard to what will happen under the Shaw plan, Mr. Chairman, is that if we need $120 billion now, we don't have $120 billion right now. We are in deficit. If we are going to look for $120 billion, that means we are either going to cut programs, and it could be something to the tune of eliminating every single dollar for elementary and secondary education that we give to all of the schools, it would mean the elimination of any monies that we give to lower income workers under the earned income tax credit, it would mean eliminating every single dime we give to aid blind and disabled people under the Supplemental Security Income program, and it would mean eliminating all of the money we give to poor folks who are working who receive food stamps or women who have children who try to provide some nutrition to their kids under the WIC program, the Special Supplemental Nutrition Program for Women, Infants, and Children, and it would mean eliminating everything we do for those who are right now suffering as a result of the downturn of the economy through the Temporary Assistance for Needy Families program.

Every single dime under all of those programs that I just mentioned would have to be eliminated in order to make up the $120 billion that it would cost to start the Shaw plan's additional accounts. So we have to be real. Like any family in planning its budget has to be real, we have to talk about dollars in and dollars out, and there is no way that you can just say, unless you are going to pull out the government credit card that you are going to be able to do this, and deficit spend and put it all on the backs of our children.

So I think hopefully we will get to the point where we are able to show some numbers, and I think the chart that Mr. Pomeroy has put up tries to illustrate the numbers that you can't do this simply by double dipping. At some point you are going to have to pay for this stuff, and you can't continue to say that there is a surplus when, in fact, it is being used right now. Indeed, my understanding is that if you take away Social Security and Medicare monies from the Federal Government's use, you have a deficit over the next 10 years that is monumental, $2 trillion or so dollars. It is only because we have Social Security monies that are used by government that we are able to talk about any type of surplus at all.

So I think it just gets confusing. If the average American were in here listening, he or she would be confused as well trying to figure out how the Federal Government balances its budget and goes about deciding what to spend.

Certainly, if a wage earner had to balance a family budget, they would love to have the funny money we are talking about here, but it can't be done because ultimately they will have to pay for a college education and retirement, and that is where I think the numbers have to be reconciled then. You can't do it. We have to make sure then when we talk about a Social Security surplus, we make sure that we are talking about monies that will be available.

Once the trust fund gets that money and it is given a Social Security certificate from the government, it will be spent by the government, whether it is for tax cuts, whether it is for this military operation to stop terrorism or whether it is just for regular operations of government, but we have to, at some point, be prepared to pay back to Social Security, and that means that you have got to come up with the money, hard dollars, not just the double-dipping and funny money that we keep hearing about.

So I won't ask Mr. Pomeroy any questions, since he has done a remarkable job of responding, and, Mr. Chairman, I will yield back my time.

Chairman SHAW. Your time has expired.

I would say to the gentleman, like any family responsible, I think you would want to set aside something for your old age, you would want to set aside something for your kids' college education, and that is exactly what we are trying to do. For the next few years, we are going to have a deficit if we are able to put money aside in order to plan for the future retirement.

But, again, I would say to both gentlemen from California that, hey, if you have got a better plan to save Social Security, you bring it in. I would like to hear it. But to simply say that if you pay down the debt, and now you have already made the point that you can't pay down the debt, it is very clear that you have no plan, and we need a plan, and we need it to be done in a bipartisan plan. Just as——

Mr. MATSUI. Mr. Chairman——

Chairman SHAW. Just a minute. Just as we did in welfare reform, just as we do in welfare reform, when we finally came together after the plan was voted down or vetoed by the President on two occasions, the Republicans and Democrats did come together, and because of that——

Mr. MATSUI. If your plan is credible, Mr. Chairman, why don't you put it on the Floor? Let us vote on it. I mean, if you really believe your plan is credible, put it on the Floor so we can vote on it.

Chairman SHAW. I know it is credible.

Mr. MATSUI. Because it is not credible. You know it is not credible. That is why you won't put it on the Floor for a vote.

Chairman SHAW. I know it is credible, but I think that we, and I think I have made this very clear, is that the disinformation that you, Mr. Gephardt, and the Democrats are putting out are going to make this, indeed, as Mr. McDermott said, the third rail of politics, and the question is can a Social Security reform package be passed without bipartisan support? The answer is clearly no. It would actually set us back to put something on the Floor that wasn't going to pass.

Could any of these plans that we are going to hear about this afternoon pass if put on the Floor? No, and they simply wouldn't because Congress does not have the courage in order to go forward to do it, the collective courage, and we need to get that collective courage and do the right thing.

Mr. MATSUI. Mr. Chairman, could I just——

Chairman SHAW. We need today to start planning for seniors of tomorrow.

Mr. BECERRA. Can I just add to your comments, Mr. Chairman, that I think one of the areas where this Congress has failed is that our previous President, Mr. Clinton, suggested that we save Social Security first, and before we start going into other areas, tax cuts or anything else, that we first plan to save Social Security. And I believe we failed the people of this country because, rather than talk first about what we do with Social Security, we went forward, some in this Congress went forward and cut taxes, and now the hole is even deeper.

So I would suggest that one of the difficulties that a lot of us have is that rather than try to keep our money where we can then use it to save Social Security first, it has been spent, and now the problem becomes even worse. Rather than talk about it from a place where you had some money you could work with, that is gone.

Chairman SHAW. Well, Mr. Becerra, why don't you join with me, and why don't you critique my plan and figure out how you would improve it, and maybe we can work it together. I would love nothing better than to find somebody on this Subcommittee to work with. I can't find anybody on the Democrat side.

Mr. BECERRA. Mr. Chairman, if we could agree that we would try to keep our money in hand so we can use it to try to deal with the Social Security issues——

Chairman SHAW. You read my plan and give me your conditions for support, and I will be glad to look at it.

Mr. BECERRA. Mr. Chairman, the first question is how do you pay for the $120-billion hole?

Chairman SHAW. Well, the question is that is part of the Social Security surplus——

Mr. BECERRA. Which doesn't exist.

Chairman SHAW. Why shouldn't that surplus be used to save Social Security?

Mr. BECERRA. That is fine, Mr. Chairman——

Chairman SHAW. It is paid in by American workers, and it should be set aside to save Social Security. And if we are going to spend beyond that, then fine, let us be honest in government and say exactly what the deficit truly is. There is one thing that——

Mr. BECERRA. So would you do less with terrorism?

Chairman SHAW. There is one thing you don't have to score——

Mr. BECERRA. Would you provide less to domestic security?

Chairman SHAW. There is one thing you don't have to score under our budget process, and that is the unfunded liability of Social Security. If you were to have to score that, this country would be bankrupt, and the balance sheet would do it.

Mr. BECERRA. Mr. Chairman, I think it would be great if you could outline where the $120 billion that you are going to use from the Social Security surplus——

Chairman SHAW. I am saying that it is coming out of the general Treasury, and I am also saying, very clearly, that it is going to require some deficit spending, but not nearly enough, not nearly the amount that is going to be necessary to save Social Security if Congress fails to do something and simply waits until 2016——

Mr. BECERRA. But if you just acknowledged deficit spending means the——

Mr. POMEROY. Mr. Chairman——

Chairman SHAW. We are in recess.

[Recess.]

Chairman SHAW. We will be back in session. We are trying to go—I think, Mr. Kolbe and Mr. Stenholm, why don't you decide between you who wants to go first? Mr. Kolbe?

STATEMENT OF THE HON. JIM KOLBE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ARIZONA

Mr. KOLBE. Thank you very much, Mr. Chairman, and thank you for holding this hearing. Mr. Matsui, thank you for being a part of this as well.

I want to commend the Subcommittee for this discussion. I think it is very important that we begin this discussion.

I also think that the future of Social Security is much too important to be used as a political football, and we need to strengthen Social Security without resorting to demagoguery, to political attacks, and to gimmicks.

We have a complete statement which will be in the record. I am just going to summarize, if I might, two things that I want to talk about. One is bipartisanship, and the other is public understanding.

Social Security reform has to be a bipartisan effort. The Social Security reform debate has been characterized as an either/or choice between two ideological poles: on the one hand, some say keep the status quo, fix it from that; and the others say full privatization.

Defenders of the status quo say that any reform that includes a market-based component is going to undermine the current safety net features and expose workers to dangerous risks. And those who advocate full privatization suggest the creation of privately managed accounts will painlessly solve every challenge while, in fact, they ignore the existing long-term liabilities and the needs of special populations.

Both of these extremes may make for good, albeit myopic, rhetoric, and debate, but they fail to acknowledge the virtue, I think, of the hybridization. The complete solution to the Social Security problem can and must combine the best of the traditional program with new market-based options that reflect the reality of where the changing demographics in this current century are going to take us.

The legislation that Charlie Stenholm and I have introduced and the reform plans the Commission recommended are not privatization plans. The Commission did not recommend dismantling Social Security, and it did not recommend reforms that will change benefits for current or near retirees. The President and the Commission should because commended for offering a variety of reform packages that Congress can use to facilitate a discussion with the American people.

While it is easy for critics to attack specific proposals for reform and make promises about benefit levels, it is difficult to put together a plan that can hold up under a thorough actuarial and budgetary analysis, and I think we know that, having worked for 5 years on our plan.

I respect the views of those on both sides of the political spectrum who have criticized what the Commission has suggested and the plan that we have introduced. But I think that criticism, Mr. Chairman, rings hollow until critics themselves present constructive alternatives that can be scored by the Social Security actuaries and the Congressional Budget Office. Likewise, those who believe that we have to guarantee all of the benefits promised under current laws have to explain where the money is going to come from to fund these promises without accumulating massive amounts of debt.

And I said the second thing that we need to do, in addition to the bipartisan approach to it, is improving the public's understanding. An agreement on fiscally responsible legislation that truly makes Social Security solvent—without simply shifting costs to future taxpayers—is going to require leadership by our President and our colleagues.

In order to facilitate a discussion with the American people, we encourage this Subcommittee to consider proposals that would improve public understanding of the challenges facing Social Security and promote a serious discussion of the options for dealing with those challenges. We would like you to consider two proposals that we have developed that are an initial way, before we get to any bill, Mr. Chairman, an initial way of having a more honest and accurate discussion of the challenges facing Social Security.

The first would be a sense of Congress resolution that calls for a serious and thoughtful debate on proposals to strengthen Social Security this year in anticipation of legislative action we hope next year. The resolution would challenge Members from all sides of the debate to submit reform plans that can be analyzed and scored by the actuaries of the Social Security Administration and encourages the Ways and Means and Finance Committees to hold hearings on all the plans that are submitted.

It would also set forth principles by which the plans could be judged: protecting current and near retirees from any changes to Social Security benefits, not raising Social Security payroll tax rates, prohibiting the government from investing the Social Security Trust Fund in the stock market, preserving Social Security's disability and survivors insurance programs, and a number of others, Mr. Chairman, that could be considered here.

The second proposal is based on the report issued by the Social Security Advisory Board Technical Panel and outlines a variety of recommendations about how we measure the problems facing Social Security, how we can talk about those problems and criteria for evaluating the reform proposals. It is my view that improving—it is our view that improving the quality of the Social Security debate tremendously will help us, I think, get to where we have to go, Mr. Chairman, eventually, and that is to have a serious—we have to have this serious debate if we are going to have serious legislative proposals considered.

With that, Mr. Chairman, let me just end by saying that we have never claimed that our plan is perfect. Each could go through the plan and select individual items that we like or we don't like—either we went too far or we didn't go far enough. But we would hope that people would look at our plan in its entirety and examine what it would mean for the future of retirement income, the Federal budget, and the health of the American economy.

If everyone determines the acceptability of reform based on adherence to simplistic pledges of no benefit cuts or tax increases, we are never going to reach a bipartisan consensus that will pass legislation. Reaching an agreement on an honest solution to the long-term challenges facing Social Security is going to be difficult under the most challenges circumstances that our country faces today. But the difficulty of the task ought not to prevent any of us and certainly this Subcommittee from facing that.

Thank you, Mr. Chairman.

Chairman SHAW. Thank you, Mr. Kolbe. Mr. Stenholm?

STATEMENT OF THE HON. CHARLES W. STENHOLM, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. STENHOLM. Thank you, Mr. Chairman, Mr. Matsui. I, too, appreciate the opportunity to come before you today, and I still have really two reasons for being here, and that is Chase and Cole. That is Cindy, my 6½-year-old, and 4½-year-old grandsons.

A lot of people have asked me why have I been so involved in Social Security, and that is the two reasons. Six and a half years ago, when they were born—the first one was born, Jim came to me and asked if I would be interested in working on the Social Security future as well as all public pensions. We organized the Public Pension Reform Caucus. It has been a tremendous educational experience for me because, not sitting on the Committees of jurisdiction, all we learn is what we seek outside of our own Committee interests.

The reason I got that involved, I mentioned that when Chase was born, I resolved then I didn't want that little fellow to look back 67 years from that day and say, "If only my Granddad would have done what in his heart he knew he should have been doing when he was in the Congress, we wouldn't be in the mess we are in today."

No one today says status quo is acceptable for Social Security. Jim and I—and it is not just us. We have introduced now in our third Congress, and each time we have introduced a bill, we have been soundly criticized for parts of it. And where the criticism was valid, we changed it, we reintroduced it in the second Congress, and we introduced it in the 107th Congress, each time listening to the critics in a constructive way, without benefit of hearing but with benefit of the knowledge of the many people who do have a sincere interest, both sides of the aisle.

One of the things that troubles me today and what has brought many of my colleagues before you today is best summarized in the recent column in Business Week by Howard Glickman, and I quote: "In Washington, the issue of Social Security reform is a lot like the weather. Everybody likes to talk about it, but nobody really does anything about it. Now comes both political parties with their latest salvos. Unfortunately, most of what they are saying these days is either lame or cynical."

Well, we are here today to encourage this Subcommittee to provide the leadership to prove his words wrong and offer followership on both sides of the aisle to prove those words wrong.

The guarantee certificates, while we understand the motives of those who propose the Social Security guarantee legislation, we have serious concerns about this proposal. I do not think it is helpful in the long term, and it is already—the amount of money to be spent on these certificates at a time when we are already running deficits is questionable. But whether it does anything like serious consideration of various proposals before this Subcommittee in preparation for next year—I am not naive enough to believe we will do anything constructive this year, but I am not going to give up on next year.

Jim mentioned the need for bipartisanship. Again, we are not going to solve this as Democrats. We are not going to solve it as Republicans. The only way we will solve the future of Social Security is in a bipartisan way.

My fellow Democrats must be more willing to acknowledge that the status quo is unsustainable and changes must be made, and I am rather frustrated with many of the comments many of my colleagues are making which suggest nothing needs to be done, while everyone privately and many publicly say something must be done.

Republicans must be willing to acknowledge the legitimate concerns that Democrats have about protecting the safety net and maintaining the progressive nature of the system. Both sides need to be willing to acknowledge there is no magic-bullet or free-lunch solution that will allow us to provide 100 percent of promised benefits without trade-offs somewhere else.

We need an honest discussion, and that is why Jim and I come before you today in saying have serious hearings on various proposals. Everyone is deserving of having their ideas heard, and at least lay the foundation and the groundwork for some serious effort in the future.

I happen to be an individual very supportive of personal accounts. To those that continue to use the word "privatization," that is less than honest a description of what we are talking about, either Jim and I or the President's proposal, the Commission, and so forth.

Personal accounts are not a magic bullet, though, that will save Social Security. But coupled with progressive reforms to the benefit structure, they offer all workers a much better deal than the current law can afford. Tough choices will be necessary to eliminate the deficit facing Social Security whether or not individual accounts are included in a reform plan. Including individual accounts in a reform plan does not require deeper benefit cuts than would otherwise be required. But neither does it make such reductions unnecessary.

Last year, the Congressional Research Service issued a report examining several individual reform options contained in the comprehensive reform plan proposed by both opponents and proponents of individual accounts. This report found that total retirement income would be greater under a plan which contained individual accounts along with changes in the existing system to restore solvency than would be the case under plans consisting of the exact same changes in the traditional system without individual accounts.

Although the CRS report demonstrates that individual accounts can be a valuable part of a plan to address the financing challenges facing Social Security, it provides further evidence that individual accounts alone do not solve the financing problems facing Social Security.

In conclusion, Mr. Chairman, the rhetoric coming from many on the left criticizing the Commission for highlighting the fiscal challenges facing the system and suggesting that reform is not necessary has not been helpful. Similarly, rhetoric suggesting that personal accounts are the magic bullet that provide a painless solution without any tough choices is equally problematic. Both extremes make it much more difficult to reach an honest agreement on Social Security reform. Finding solutions which both address the financial problems in an honest and responsible manner as well as modernizing the program to meet the challenges will be a difficult task. We owe it to our children and grandchildren to do it, and we are here to say we look forward to working with you to accomplish that goal.

[The prepared statement of Mr. Kolbe and Mr. Stenholm follows:]

Joint Statement of the Hon. Jim Kolbe, a Representative in Congress from the State of Arizona, and the Hon. Charles W. Stenholm, a Representative in Congress from the State of Texas

As Members who have dedicated ourselves to promoting an honest and open debate on the issue of Social Security, we commend the Committee for holding hearings on ways to improve Social Security. This is certainly an admirable goal. However, we are concerned about rhetoric emanating from both parties that fans political fires but does little to contribute to a responsible debate about Social Security and the need for reform.

The future of Social Security is too important to use as a political football. An agreement on legislation to strengthen Social Security will require bipartisan cooperation. If we continue to poison the well for reform by making irresponsible claims today, we will surely leave a legacy of debt for future generations.

Guarantee Certificates

The Social Security guarantee certificates under discussion at this hearing have become quite controversial. Our concerns do not stem from any desire to reduce benefits for retirees but from a desire to have a real debate on Social Security reform. We are concerned that the guarantee certificate legislation, however well intentioned, has distracted us from a serious discussion about the challenges facing Social Security. We should not be making promises to one group of citizens which will arouse even more anxiety in other groups. We should acknowledge the costs of the commitments we make.

Our commitment to seniors is unwavering as is the commitment of all Members of Congress and the President. Seniors should have no doubts that we will do everything possible to ensure their financial security. However, the best way to protect seniors and provide an adequate benefit for widows and survivors is to enact a comprehensive reform package early next year which ensures that the Social Security system is strong for those currently receiving Social Security as well as their children and grandchildren.

The Need for Bipartisanship

The Social Security reform debate has been characterized as an either-or choice between two ideological poles—"status quo" or "full privatization." Defenders of the status quo argue that any reform that includes a market-based component will undermine the current safety net features and expose workers to dangerous risks. Advocates of full privatization suggest that the creation of privately managed personal accounts will painlessly solve every challenge while, in fact, they ignore existing long-term liabilities and the needs of special populations. Both extremes make for good, albeit myopic, rhetoric and fail to acknowledge the virtue of hybridization. The complete solution to the Social Security problem can and must combine the best of the traditional program with new market-based options.

The legislation we introduced and the reform plans the Commission recommended, are NOT "privatization" plans. The Commission did NOT recommend dismantling Social Security, and it did NOT recommend reforms that will change benefits for current or near retirees. The President and the Commission should be commended for offering a variety of reform packages that Congress can use to facilitate a discussion with the American people.

Reaching a bipartisan consensus requires compromises and tradeoffs by both sides. Democrats must be willing to acknowledge that the status quo is unsustainable and changes must be made. Republicans must be willing to acknowledge the legitimate concerns that Democrats have about protecting the safety net features of Social Security and maintaining the progressive nature of the system. Both sides need to be willing to acknowledge that there is no "magic bullet" or "free lunch" solution that will allow us to provide 100% of promised benefits without tradeoffs somewhere else.

In order to have an honest debate about reform, both parties must be willing to put forth reform plans that can be scored by the Social Security actuaries and the Congressional Budget Office. Those who criticize reform proposals must be willing to offer their alternative. The failure to offer a plan should be read as tacit acceptance of the "Do Nothing Plan" with all of the tax increases, benefit cuts, and debt that is associated. Likewise, those who believe we must guarantee all of the benefits promised under current law must explain where the money will come from to fund these promises without accumulating massive amounts of debt. While it is easy for critics to attack specific proposals for reform and make promises about benefit levels, it is difficult to put together a plan that can hold up under a thorough actuarial and budgetary analysis.

The Role of Individual Accounts in Reform

Personal accounts are not a magic bullet that will save Social Security, but coupled with progressive reforms to the benefit structure, they offer workers a much better deal than current law can afford. Tough choices will be necessary to eliminate the deficit facing Social Security whether or not individual accounts are included in a reform plan. The Directors of the Congressional Budget Office and the General Accounting Office, Federal Reserve Chairman Alan Greenspan, and numerous policy experts all have testified that Congress and the President must make tough choices to return Social Security to solid financial footing. However, individual accounts can help make the task easier for policymakers and limit the impact on future beneficiaries. Including individual accounts in a reform plan does not require deeper benefit reductions than would otherwise be required, but neither does it make such reductions unnecessary.

Last year, the Congressional Research Service issued a report examining several individual reform options contained in comprehensive reform plans proposed by both opponents and proponents of individual accounts. CRS calculated the change in retirement income under each change by itself and in combination with individual accounts. In each case, the report found that total retirement income would be greater under a plan which contained individual accounts along with changes in the existing system to restore solvency than would be the case under plans consisting of the exact same changes in the traditional system without individual accounts.

Although the CRS report demonstrates that individual accounts can be a valuable part of a plan to address the financing challenges facing Social Security, it provides further evidence that individual accounts alone do not solve the financing problems facing Social Security. The CRS report is consistent with the findings of the Commission and numerous independent analyses.

Improving Public Understanding

An agreement on fiscally responsible legislation that truly makes Social Security solvent—without simply shifting costs to future taxpayers—will require leadership by the President and our colleagues. We call on the Members of the Ways and Means Committee to continue to engage in a serious discussion about the realities of Social Security reform.

In order to facilitate a discussion with the American people, we encourage the Committee to consider proposals that would improve public understanding of the challenges facing Social Security and promote a serious discussion of the options for dealing with these challenges. Specifically, we ask your consideration of two proposals we have developed which would encourage a more honest and accurate discussion of the challenges facing Social Security.

Sense of Congress Resolution

Our first proposal is a Sense of Congress resolution calling for a serious and thoughtful debate on proposals to strengthen Social Security this year in anticipation of legislative action next year. The resolution challenges Members from all sides of the debate to submit reform plans which can be analyzed and scored by the actuaries Social Security Administration and encourages the Ways and Means and Finance Committees to hold hearings on all plans that are submitted.

In addition, the resolution sets forth several principles by which all plans should be judged. We suggest that any reform proposal should adhere to the following principles: protecting current and near retirees from any changes to Social Security benefits; not raising Social Security payroll tax rates; prohibiting the government from investing the Social Security trust funds in the stock market; and preserving Social Security's disability and survivors insurance programs. In addition, we believe that any reform plan should seek to achieve the following goals in addition to restoring solvency: maintaining a reasonable annual cash flow; reducing the pressure on future taxpayers and on other budgetary priorities; addressing the fact that many workers can expect to receive very low, if not negative, rates of return on their Social Security taxes by providing competitive rates of return; and strengthening and preserving the safety net for vulnerable populations and ensuring that retirees who work their entire lifetime will receive a benefit that keeps them above the poverty line.

Increased Information for the Public and Policymakers

As Congress begins to review and debate the proposals put forward by the Commission, all participants in the debate must be held to high standards of accountability. We respect the views of those on both sides of the political spectrum who have criticized the proposals being considered by the Commission. However, this criticism will ring hollow until critics present constructive alternatives that can be scored by the Social Security actuaries.

Our second proposal is based on a report issued by the Social Security Advisory Board Technical Panel outlining a variety of recommendations about how we measure the problems facing Social Security, how we talk about those problems and criteria for evaluating reform proposals. Our proposal contains three basic elements drawn from the Technical Panel report, which would provide for a more informed debate on the challenges facing Social Security and our options for addressing these challenges:

- Require an annual report from the Commissioner of the Social Security Administration which would provide more information regarding the financing shortfalls facing the Social Security system and a presentation of the levels of benefit reductions or tax increases that would be required under current projections.
- Direct the Commissioner of Social Security to develop methodology to evaluate the impact of Social Security reform proposals beyond simply determining whether or not a plan restores trust fund solvency. Our proposal would direct SSA to consider issues such as the fiscal health of the system throughout the entire 75 year period, the effect of the reforms on the rest of the federal budget, the impact of the reforms on national savings, the amount of retirement income that would be provided under the reforms compared to the benefits that current law can fund, and the impact of the reforms on poverty rates among the elderly.
- Require an annual report from the Congressional Budget Office regarding the impact of the Social Security system and Social Security reform proposals before Congress on the federal budget and national savings levels.

This type of information would improve the quality of the Social Security debate tremendously because the facts would be clearly established and stated. The reporting information called for in our proposal would not advantage or disadvantage any particular approach to reform. Rather, it would simply require that current law and alternate reform approaches be graded on a level playing field that recognizes their overall impact on the federal budget, as well as their effects on elderly poverty, national savings, and other considerations.

Enron and Social Security

Increased public understanding of the problems plaguing Social Security would be particularly salient as critics claim that proponents of market based reform want to "Enron" Social Security. The Enron debacle is not about the inherent risk of private investment; it is not about whether Social Security should be reformed; it is about lack of diversification, poor accounting, and likely fraud—all three of which are being investigated by numerous Congressional committees and will be litigated in the courts.

Under the Social Security reform plan we introduced and all three plans put forward by the Commission, workers would not be forced to move their Social Security contributions into the stock market. They would have choice—something severely lacking in the current Social Security system and in the Enron pension plan. Opponents of individual accounts propose collective investment of the Social Security trust funds, which would force all workers to put a substantial part of their Social Security funds into the stock market and would deny them the right to diversify their holdings.

Individual accounts provide the best possible check against abuses by corporations, the securities industry, or the government by putting the decisions in the hands of individuals. If people don't like how their funds are being managed, they can vote with their feet and put their money elsewhere. That will make the government far more accountable in how it handles retirement funds. By contrast, under collective investment, individuals have no control over how their money is invested and no way to hold the government accountable.

We are particularly concerned by apparent misinformation received by Enron employees about the health of the company. Similarly, we are concerned that Americans are receiving erroneous information about the health of the Social Security system. The truth is that Social Security is broken. We are not saying that the sky is falling today; however, in the absence of reform we will leave little to our children and grandchildren but a mountain of debt or to retirees broken promises and reduced benefits.

"The Radical Center"

We have tried to stake out the position of the responsible, radical center. The rhetoric coming from many on the left criticizing the Commission for highlighting the fiscal challenges facing the system and suggesting that reform is not necessary has not been helpful. Similarly, rhetoric suggesting that personal accounts are the "magic bullet" that provide a painless solution without any tough choices is equally problematic. Both extremes make it much more difficult to reach an honest agreement on Social Security reform.

We have never claimed that our plan is perfect. Each of you could go through our plan and select individual items to criticize—either we went too far or not far enough. However, we encourage you to look at the plan in its entirety and examine what it would mean for the future of retirement income, the federal budget and the health of the American economy. If everyone determines the acceptability of reform based on adherence to simplistic pledges of no benefit cuts or tax increases, we will never reach a bipartisan consensus to pass legislation.

Reaching an agreement on an honest solution to the long-term challenges facing Social Security will be difficult under the challenging circumstances our country now faces, but the difficulty of our task must not prevent us from confronting it.

Chairman SHAW. Thank you, Charlie. I have got 13 Chase's, but I am sure you will catch up.

Mr. STENHOLM. I always know better than to brag about my grandkids. Somebody is always going to do better.

[Laughter.]

Mr. STENHOLM. But I will stack my two up against yours.

[Laughter.]

Chairman SHAW. How come I knew that was coming. Mr. DeFazio?

STATEMENT OF THE HON. PETER A. DEFAZIO, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OREGON

Mr. DEFAZIO. Thank you, Mr. Chairman.

Mr. Chairman, I have submitted a lengthy statement for inclusion in the record.

Chairman SHAW. It will be made a part of the record.

Mr. DEFAZIO. Thank you, Mr. Chairman. I will summarize briefly, and I do congratulated Charlie and Jim. They have put forward an honest proposal. I may disagree with it, but they have both taken on the issue of looking at—Charlie doesn't want to call it "privatization," but the individual accounts, and the long-term solvency of Social Security. Most of the other plans that I have seen before the Subcommittee do not do that.

My plan does. My plan has been evaluated by the actuaries of Social Security, and it has been found to reach a 75-year actuarial balance. It does it in a way that some find controversial, but like a number of years ago, Congress lifted the cap on the wages on which Medicare was paid. My proposal would lift the cap on the wages on which Social Security taxes are paid. It would, however, retain the current calculated growing cap for future benefits. That creates a great deal of money. In fact, that linked with my aggregate investment proposal where gradually we would have a private firm under contract to the trustees of Social Security invest a growing portion of the Social Security surplus or trust funds in equities would also help boost future returns to the fund, according to the actuaries—or potentially. None of us can predict the market.

So at that point, we would have more than enough money for 75-year actuarial balance, and, therefore, we can make a few improvements in the program, one improvement being to make the tax a little less burdensome on lower income working people, so the first $4,000 of wages would be exempt from FICA taxes. And that obviously in this year would provide a tax break to everybody who earns less than $88,900 a year, the current cap plus $4,000, a proportionally higher tax break to those at lower income levels. it would also improve benefits for people over age 85. We find a very disturbing trend of people outliving their assets, no matter how well they have provided for themselves, and falling into poverty at an increasing rate over age 85.

And, third, it would add to the child care dropout years. It would allow individuals—since we like to talk about what we want to do for families, it would allow individuals a number of extra years to engage in home child care and not be penalized in the ultimate computation of their Social Security benefit.

So that, in brief, is my proposal.

Now, I think a couple of points need to be made. There are concerns about investment. As I said, the investment would be similar to FERS, the Federal Employee Retirement System, fund or the many State pension funds where a professional investment firm would be engaged by competitive bidding, and they would invest only in the fiduciary interest of the fund. If the fund ultimately grew too large, you could put in a stop where you would say, okay, if it was larger than, for instance, Fidelity, which is today the largest fund at 3.3 percent of overall market assets, you would then have the government be required, or the trustees, to enter into a second contract to establish another fund if we become worried about some sort of market manipulation, which we are not worried about with Fidelity, but if we did have those sorts of worries.

Then, you know, finally, the key point to be made—and I was kind of amazed by the earlier discussion—is I think the basic point on which every plan should be considered is does it resolve the Social Security shortfall. The Social Security shortfall starts in 2038. In 2038, we can predict with conservative assumptions we will have assets with incoming taxes adequate to pay 73 percent of promised benefits. Maybe we will do better than that. Maybe we will do worse. I don't think we should wait and get much closer to that date. But if you add on a problem, that is, if you begin to deduct under some plans a portion of the cash flow to Social Security, the FICA tax, then you compound that problem, and perhaps, for instance, under one of the President's Commission's proposals, when you divert 2 percent, the drop-dead date for Social Security becomes 2024 instead of 2038. And then, of course, under the Chairman's own proposal—you know, I have listened to you and Mr. McDermott debate the merits of where and how it will be capitalized. I am not even going to attempt to enter into that debate. But I would observe, as far as I understand the Chairman's proposal, it doesn't deal with the underlying problem of the Social Security having exhausted the trust funds in the year 2038.

So this is something that we have to keep before us, But you have got to be honest about this. There is no free lunch here. And the President's privatization Commission, they have punted altogether on this. I mean, they just said, well, we will transfer general fund money or we will change the actuarial tables or we will go to price indexing instead of wage indexing.

They have got a short memory. Remember, we went to wage indexing because of the inflation in the late seventies. Congress changed the formula in the 1977 amendments. We used to index according to prices, and then we said, oh, no, wait a minute, we will go to wage indexing because wages are going up slower than prices. Well, now we are going to convert back. They think that that is going to save a bunch of money. Maybe. But it is also estimated to dramatically reduce benefits. So maybe it will either dramatically reduce benefits and save money, or maybe they will have guessed wrong and we will get back into a period of high inflation, and it will bankrupt Social Security more quickly.

So these are the issues that are before us, but there are tough choices to be made. We can't avoid them.

[The prepared statement of Mr. DeFazio follows:]

Statement of the Hon. Peter A. DeFazio, a Representative in Congress from the State of Oregon

Introduction

Chairman Shaw, Ranking Member Matsui and other Members of the subcommittee, I appreciate the opportunity to testify today about the future of Social Security.

I am in the middle of a series of 15 town hall meetings I've been holding throughout Southwest Oregon to discuss Social Security with my constituents.

If there's one thing I want those who attend my town hall meetings to take away from those gatherings it's that Social Security is NOT in crisis. It is a fundamentally sound program that can remain so for the next 75 years and beyond with only minor changes.

If there's one thing I would like the Members of this Subcommittee to take away from my testimony today, it's that when residents of the 4th District of Oregon hear the truth about what privatization of Social Security means, they oppose it.

I will go into the specifics shortly, but at the outset of my testimony I would like to put in a pitch for my own plan to ensure the solvency of Social Security. I have introduced legislation, H.R. 3315, the "Social Security Stabilization and Enhancement Act." The Social Security actuaries have certified that my legislation would restore 75-year solvency to the program. And, just as importantly to me, the reaction of Oregonians at my town hall meetings has been favorable.

I would urge this subcommittee to seriously consider my proposal as a viable alternative to the wholesale dismantling of Social Security that privatization represents.

The Social Security Trust Fund and the Financial Challenges Facing Social Security

As you know, currently, Social Security is collecting more in payroll taxes than is necessary to send checks to beneficiaries.

Congress made a conscious decision in the early 1980s, pursuant to a recommendation by the Greenspan Commission, to boost payroll taxes far above the level necessary to fund current benefits in order to build up reserves for when the Baby Boom generation began to retire.

These excess payroll taxes are being credited to the Social Security Trust Fund and then invested in government bonds that pay interest to the Trust Fund. The Trust Fund already has assets of more than $ 1 trillion, and will grow to around $6.5 trillion by 2024.

Some in Congress and the current Administration have claimed that the bonds held by Social Security are not assets, but rather are "worthless IOUs."

When you deposit money in your savings account at your local bank or credit union, the money doesn't just sit there waiting for you to retrieve it. The financial institution loans the money out to other customers and makes money by charging interest. But, the institution also has an obligation, when you return to withdraw some of your money, to have the resources to cover that transaction.

Similarly, the money contributed to Social Security is not stacked up and locked away until a worker is ready to collect benefits. Rather, surplus Social Security funds have been used to fund other government programs or, more recently, at least until President Bush and Republicans in Congress created a fiscal mess with last year's tax cut, to pay down debt. Yet, no matter what the surplus has been used for, the Social Security Trust Fund has always received a U.S. Treasury bond in return.

U.S. Treasury bonds are the safest investments in the world. That is why, when there are periodic global financial crises, investors flee for the safety and soundness of U.S. Treasury bonds.

Because they are the preferred choice of investors around the world, it should be clear that U.S. Treasury bonds represent real financial assets. If some in Congress and the Administration continue to insist otherwise, then they've got some explaining to do to investors around the world, in which case I fear for the stability of our nation's financial system.

For those who don't believe the Trust Fund exists, or don't believe it holds real assets, I would urge them to look at page 19 of the latest Social Security Trustees report. The chart on page 19 lists the current assets of the Social Security Trust Fund. As the chart shows, the Trust Fund holds bonds with varying maturity dates and varying interest rates (6.125 percent up to 10.375 percent). Clearly, the Trust Fund represents real assets.

In fact, the bonds held by the Social Security Trust Fund state explicitly, "The bond is incontestable in the hands of the Federal Old-Age and Survivor's Insurance Trust Fund. The bond is supported by the full faith and credit of the United States, and the United States is pledged to the payment of the bond with respect to both principal and interest."

That said, I agree that demographic changes—a growing number of retirees, proportionately fewer workers, and longer life expectancy—create challenges for Social Security. But these financial challenges are entirely manageable without abandoning the concept of social insurance and the best anti-poverty program ever devised by the federal government.

In 2016, the payroll taxes coming into Social Security will be insufficient to cover all promised benefits. The Social Security Administration (SSA) will then begin to draw on the interest earned by the Social Security Trust Fund to help pay full benefits.

In 2025, incoming payroll taxes plus the interest income from the Trust Fund will be insufficient to pay all benefits. The SSA will then begin redeeming bonds held by the Social Security Trust Fund to cover full benefits.

As the Social Security system begins to redeem these bonds over the next several decades, the government has to find the money to honor this debt. There is more than one way to do so.

The most obvious way is to reserve current Social Security surpluses to pay off our massive national debt, thus saving hundreds of billions of dollars a year in interest payments that could then be devoted to Social Security.

There had been consensus until last year in Congress on using Social Security surpluses to pay down debt. Unfortunately, President Bush and Republicans in Congress rammed through a $2 trillion tax cut last year under the misguided assumption that a projected $5.6 trillion 10-year surplus somehow represented real money that could be returned to taxpayers with no negative fiscal consequences.

Now, not only has the promise to pay down debt been broken, thus burdening our nation's children with a crushing debt they didn't create, but the bipartisan consensus to reserve Social Security surpluses for only paying down debt and shoring up the program has been abandoned.

The budget recently submitted by President Bush would spend $1.5 trillion in Social Security money over the next decade. Essentially, the President is funding tax cuts that overwhelmingly benefit those making over $373,000 a year by shifting working Americans' Social Security money into the bank accounts of our nation's wealthiest individuals. That is totally unacceptable.

The federal government could also simply issue new debt to investors and use the cash raised to cover benefits.

Again, however, the first two options have been made more difficult by the fiscal irresponsibility of Republicans in Congress and the current Administration.

Another option to find the resources to redeem the bonds is to collectively invest a portion of the Trust Fund in equities other than federal debt. Diversification would increase liquidity and has the potential to increase the resources in the Trust Fund through higher rates-of-return without the risk inherent in a privatized system. I will have more to say about collective investment in a minute.

The final key date for Social Security is 2038. In 2038, all of the bonds in the Trust Fund will have been redeemed, and Social Security will rely solely on incoming payroll taxes to fund benefits.

In other words, without any changes whatsoever, for the next four decades, Social Security will be able to pay 100 percent of promised benefits.

However, even after 2038, Social Security will never be "bankrupt" in the sense that it couldn't pay any benefits whatsoever. If Congress sat on its hands and made no changes for the next four decades, under current projections, the program would still be able to cover 70–75 percent of promised benefits in perpetuity because of the payroll taxes flowing in from workers' paychecks.

Therefore, we are here today discussing how best to plug that roughly 25 percent gap between expected revenues and benefits.

Uncertainty in Long-Term Projections

Keep in mind, however, that even that projected deficit is highly speculative since it is very sensitive to underlying economic and demographic assumptions.

As former Social Security Commissioner Robert Ball wrote in his book Straight Talk About Social Security, "Think how things would have turned out if, in 1923, during the Administration of President Harding, experts had tried to forecast population growth and the movement of wages and prices up to 1998. Among other things, they could not have anticipated the impact of a worldwide depression, a second global war, and an unprecedented cold war."

In their intermediate assumptions, the actuaries project economic growth over the next 75 years will average only around 1.5 percent, or roughly half the average growth rate over the previous 75 years, even with the Great Depression figured in. I would argue that future presidents and Congresses are not going to sit by and let the economy grow at a dismal 1.5 percent for decades. If they do, then our nation will probably have bigger problems to deal with than what to do about Social Security.

Leaving aside for a minute the glaring inconsistency between this low growth rate and privatization proponents' mantra that private accounts will yield at least a seven percent rate of return, it is important to understand that slight changes in assumptions can shrink the projected deficit in Social Security significantly.

According to the Social Security actuaries, if economic growth is just one percent higher, which would still be below the historic average, then half of the projected long-term deficit disappears. If economic growth is two percent higher, or in other words, right around the historic average, then the deficit in Social Security virtually disappears.

The story is similar if other economic or demographic assumptions, such as wages, productivity or life expectancy, are different that what is currently projected.

Just as fundamentally, while privatization proponents predict disaster because of the decreasing proportion of workers to retirees, arguably the more important measure is the ratio of workers to overall dependents in society, which includes retirees, children, and non-working adults.

As Robert Reischauer and Henry Aaron note in their book *Countdown to Reform,* "While the proportion of the population that is elderly has risen and will increase further, the proportion of children and nonaged adults who are not working for pay has fallen over the past three decades and is projected to fall further in the future. Consequently, the number of people each worker will support is projected to rise only modestly—approximately 6 percent—between now and 2040, even though the number of elderly will soar. The number of economically inactive members of the population per 100 workers was much in the past (156 in 1960) than it was in the mid-1990s (103 in 1995) or than it is projected to be in the future (115 in 2040)."

All of these caveats I've raised are not intended to lead to the conclusion that Congress should do nothing. Obviously, it is prudent to plan for the solvency of Social Security with a lot of lead-time using relatively conservative assumptions (though privatization proponents should consistently apply these conservative assumptions when scoring their own plans).

But, a serious look at the assumptions underlying the projected deficit does lead me to the conclusion that the hysterical cries that Social Security is in crisis are simply false, and privatization is not a necessary or desirable direction in which to take Social Security.

The DeFazio Plan

So how can we ensure the long-term solvency of Social Security while keeping the program intact? As I mentioned at the beginning of my testimony, I have offered legislation, H.R. 3315, the "Social Security Stabilization and Enhancement Act," that I believe could serve as a model. There are three primary features of my bill: making the Social Security payroll tax burden more fair, boosting benefits for the most vulnerable seniors, and diversifying Trust Fund investments.

1. **Payroll tax cut:** H.R. 3315 exempts the first $4,000 in wages from the Social Security payroll tax. This exemption would cut Social Security payroll taxes by more than 11 percent for an individual earning $35,000. The exempt wages would still be included for purposes of calculating benefits.
2. **Lifting cap on wages subject to Social Security payroll tax:** Currently income above $84,900 is not subject to the Social Security payroll tax. By contrast, all wages are subject to the Medicare payroll tax. My legislation would merely treat wages the same for Social Security as for Medicare by lifting the cap on wages subject to the Social Security payroll tax. This change would only

impact the wealthiest 5 percent of Americans. The cap would be retained for the purposes of computing benefits.

3. **Increase benefits up to 5 percent for those over age 85:** Those over age 85 are highly vulnerable to poverty, particularly women who are widowed. My legislation would provide for a modest increase in benefits of up to 5 percent.
4. **Allow diversification of Trust Fund investments:** H.R. 3315 sets up the Social Security Investment Oversight Board (SSIOB). Members of the SSIOB would serve lengthy, staggered terms. The SSIOB would be responsible for selecting private fund managers to invest up to 40 percent of the Trust Fund on behalf of Social Security beneficiaries. When the Social Security actuaries scored my plan, they assumed half of the Trust Fund assets eligible for diversification under my plan would remain invested in U.S. Treasury bonds, while the other half would be invested in corporate equities. Investing would be limited to broad-based index funds, therefore eliminating the danger of picking and choosing individual stocks. H.R. 3315 also requires that investing be done solely in the fiduciary interest of Social Security beneficiaries. This, along with using index funds, would help prevent Congress from interfering in investment decisions.

The collective investment provisions I've written into my legislation are consistent with those recommended by R. Kent Weaver, a senior fellow at the Brookings Institute, in his testimony last September before the President's Social Security privatization commission. Noted Social Security experts like Robert Ball, Henry Aaron, and Robert Reischauer have also called for collective investment.

Mr. Weaver noted several important advantages collective investment enjoys over individual accounts.

He testified, "First, by pooling investments and keeping transaction, marketing and reporting costs to a minimum, collective investments can lower the costs of investing funds dramatically and produce higher net returns than individual retirement savings accounts.

"A second advantage that collective trust fund investment has over individual accounts is that it lowers information costs for consumers, as the costs of evaluating alternative investments are spread over huge groups.

"A third important advantage that allowing Social Security trust fund equity investments has over individual accounts is that doing so would not undermine or erode the defined benefit structure of Social Security, which provides a predictable retirement income that spreads the risks of fluctuating asset values and annuity prices across the population and over generations."

To Mr. Weaver's observations about the benefits of collective investment, I would add two of my own: collective investment allows for the potential of increased rates-of-return on investments without the risk of individual accounts. It is much easier for private fund managers to ride out even a lengthy downturn in the stock market than it is for an individual nearing retirement.

In addition, collective investment has the potential to increase national savings. Under a system of individual accounts, it is reasonable to expect that as individuals begin to accumulate savings in their privatized accounts that they may reduce savings elsewhere, such as in their 401(k)s or IRAs. To the extent they reduce these other sources of savings, overall national savings declines. By contrast because individuals would not see the accumulation of wealth through collective investment, they would not have an incentive to reduce savings elsewhere. Therefore, collective investment will likely have a greater positive economic impact than privatization.

I know some of my colleagues have raised concerns about the federal footprint that would be left in the stock market if we allow collective investment of a portion of the Social Security Trust Fund.

It is important to keep in mind that state and local governments in the United States already own substantial private assets, which has not endangered the efficiency of financial markets. As the Center on Budget and Policy Priorities noted in a February 26, 2001 report, "At the end of the third quarter of 2000, state and local pension investments in private assets (including stocks and bonds) amounted to 28 percent of the U.S. Gross Domestic Product (GDP), and state and local pension investments in corporate equities amount to almost $2 trillion, or 19.5 percent of GDP. This scale is likely to be well beyond that which the federal government would undertake if a portion of the Social Security trust fund were invested in private markets."

The Federal Thrift Savings Plan (TSP) is another example of a public entity successfully investing in private assets.

As I mentioned previously, the Trust Fund investment envisioned by my legislation would be done by the private sector, and would be limited to broad index funds. However, additional protections could be written into law that should satisfy all but the most ideologically rigid Members of Congress.

For example, we could limit the size of any one Social Security investment fund to roughly the size of the largest private investment fund, which is currently Fidelity Investments with 3.3 percent of domestic equities. If a Social Security investment fund reached this size, it would not receive any new money and a new fund would be created and privately managed by a different firm.

Some have also raised the concerns about how voting rights for shareholders would be exercised under a system of collective investment. There are a variety of ways to address this concern. The simplest would be to prohibit the shares held by the Trust Fund from being voted by fund managers at all. Fund managers could also be required to vote the shares in proportion to other shareholders' votes, thus not affecting the final outcome.

A third, more controversial, option would be to require the fund managers to vote the shares in the fiduciary interest of shareholders. While there used to be a fair amount of shareholder activism by state pension funds, this seems to have dissipated. A recent study by Alicia Munnell of Boston College shows that state funds have moved away from such practices and have earned returns that compare favorably to those of private retirement funds.

5. **Increase years of earnings used to compute benefits from 35 to 38:** Consistent with a recommendation of many non-partisan analysts, H.R. 3315 would increase the years of earnings used to compute benefits from the 35 highest years to the 38 highest years of earnings. However, my legislation also allows for three child-care dropout years, so individuals who stay home to care for children are held harmless by the increase.

The Pitfalls of Privatization

Let me briefly touch on a number of the pitfalls of privatization. I believe proponents of privatization need to be much more honest with the American people about the implications of privatization. It is simply not possible to create a system of private individual accounts using existing payroll tax revenue and still protect Social Security recipients from benefits cuts. Spending tens of millions of dollars in Social Security money to send beneficiaries an embossed certificate promising to protect their benefits (which the Congressional Research Service notes would not be legally enforceable) cannot get around the fundamental fact, as the President's privatization commission acknowledged in its report, that privatization means large cuts in existing Social Security benefits.

Transition Costs

Because the vast majority (70–80 cents of every dollar) of payroll taxes coming into Social Security go out immediately to pay benefits, diverting two percent of payroll taxes (or more depending on the privatization plan) creates a huge gap in financing of $1 trillion over the next ten years and $3 trillion over the next twenty.

Some plans, including those advocated by the President's privatization commission, envision some sort of general revenue transfer to fill this gap. However, as I noted earlier, the surplus general revenue that theoretically could have been used for such a transfer no longer exists, thanks primarily to last year's tax cut.

Another option to close the financing gap would be to raise taxes. However, that would result in double-taxing young people: once to fund benefits for current recipients, and again to fund their own individual account. A lot of young people believe privatization would be good for them, but in reality, it would actually represent more of a financial burden.

A third option to close the gap is to cut benefits. I will discuss that option in a minute.

The bottom line is that a system of private individual accounts does absolutely nothing to ensure the solvency on Social Security. In fact, diverting payroll tax revenue to private accounts actually accelerates the financial challenges facing Social Security. Diverting two percent of payroll taxes would accelerate the projected insolvency of the Trust Fund from 2038 to 2024—14 years sooner.

Benefit Cuts

I have never seen an honest privatized Social Security plan that did not include massive benefit cuts. Sometimes these cuts are explicit, and sometimes they're hidden. But, that doesn't change the reality that the cuts would be necessary and real, and would cause severe hardship for beneficiaries.

For example, the President's privatization commission proposed a disguised increase in the retirement age and slyly proposes tying initial benefit levels for future retirees to the growth in prices, rather than wages, as is now the case. As Ranking Member Matsui has noted, "Wages rise faster than prices, and reflect the growth in the standard of living. If this change were adopted, retirees could not maintain the standard of living in retirement that they had earned during their working years, but instead would fall back to the reduced standard of previous generations."

The Center on Budget and Policy Priorities has estimated that so-called "price-indexing" would reduce benefits by 40–50 percent. These benefit reductions would apply to all Social Security beneficiaries, including the disabled, widows, and children.

Rates-of-Return

In order to make privatized individual accounts sound attractive, privatization proponents assume very high rates-of-return from an individual's investment in the stock market. But at the same time, in order to claim a crisis in Social Security, they create a false sense of alarm by assuming future economic growth will be slow. They can't have it both ways.

Proponents have not been able to show, indeed, have not even tried to show, how the stock market would be able to yield seven percent returns in the future when economic growth is projected to be only around half of what it's been in the past. Many experts, including Peter Diamond of the Massachusetts Institute of Technology and Dean Baker of the Center for Economic and Policy Research, predict the stock market is likely to provide only around a 3.5 percent rate of return in the future given current levels of price-to-earnings ratios and projected economic growth rates. Mr. Diamond's research shows the only way stocks could yield seven percent in the future is if the market dropped in value by half first! I don't hear privatization proponents acknowledging the market needs to drop by 50 percent in order for their plans to add-up. I imagine that would make their plans sound less attractive to the American people.

Privatization proponents also downplay the risk of investing in stocks. While the market has had a general upward trend, there were fifteen years in the past century in which the value of the stock market fell by more than 40 percent over the preceding decade.

Or as the General Accounting Office (GAO) noted in an April 1998 report, "Although the 30-year average of the S&P 500 since 1970 consistently outperformed the Treasury returns credited to the Social Security trust fund, the 10-year moving average of the S&P 500 underperformed the trust fund's Treasury returns at times . . . In fact, nominal stock returns were less than the Social Security trust fund's annual yield in 17 years from 1950 to 1996—more than 35 percent of the time."

GAO also noted in a June 1999 report, "Actual nominal (non-inflation adjusted) returns for large company stocks varied widely from the annualized average return over long periods and have ranged from a low of minus 25.6 percent in 1974 to a high of 52.6 percent in 1954 . . . over the past 70 years or so, equity returns were negative in nearly 1 out of every 4 years."

Gary Burtless of the Brookings Institution has modeled how individuals would have faired under a privatized Social Security system, had individuals invested in stocks since the beginning of the program. What Burtless found should give advocates of privatization pause. According to this research, the initial wage replacement rates for workers ranged between 20 percent and 110 percent, with an average rate of 53 percent. As his Brookings colleague Mr. Weaver noted in his testimony before the privatization commission, "This difference of more than 5 to 1 in replacement rates is a fatal flaw for a program designed to ensure a basic income level."

If a worker, dependent on an individual account retired during a market downturn, they would see a substantial reduction in their retirement earnings. Investing the Trust Fund collectively as I've proposed would limit the risk for individuals and offers the ability to weather even a sustained market downturn.

Further, as analysts like the GAO (in an August 1999 report) and the Center on Budget and Policy Priorities have pointed out, a simple rate-of-return comparison can be highly misleading unless a number of factors—like transition costs, disability and survivor's benefits, administrative costs and increased risk associated with privatization—are also incorporated into the comparison. These factors all decrease potential rates-of-return under privatization.

It is also important to keep in mind that the rate-of-return argument is essentially irrelevant to a social insurance program like Social Security. You don't complain if your rate-of-return on your fire insurance is zero, because that means your house didn't burn down. Social Security is an insurance program, not a get rich quick investment scheme. It provides the equivalent of $300,000 in life insurance and $200,000 in disability insurance in addition to a retirement benefit. Equivalent private sector life and disability benefits are often beyond the reach of working Americans.

Administrative Costs

Administrative costs under the current Social Security system are less than one percent of total expenditures. By contrast, under a privatized system, individuals would likely lose at least 20 percent of their benefits to administrative costs. Administrative costs in the partially privatized system in Britain have reduced the account of the typical worker by 36 percent. While it's true that administrative costs can be lowered by restricting investment options and similar sorts of measures like those proposed by the privatization commission, doing so goes against privatization advocates' mantra of individual choice. Even if one weighted down a private accounts system with a bunch of provisions designed to minimize administrative costs, there is zero chance such a system could compete with the administrative efficiencies available under the current system or under a system allowing for collective investment.

Impact on Employers

An often over-looked problem with privatization is the impact on employers, particularly small businesses. Eighty percent of the workforce earns less than $40,000. Forty-two percent of the workforce earns less than $15,000. Eighteen to twenty percent of the workforce earns less than $5,000 (of these, many work for 4–5 different employers per year.)

The 25,000 largest employers file reports with the IRS every day by electronic deposit. All of these deposits are recorded in the general fund of the Treasury, which then transfers them to SSA on a daily basis. Other employers, depending on size, report every two weeks, every month, or, for the smallest employers, every quarter (4 million employers have 10 or fewer employees).

However, all of these transfers are aggregate payments. There is no effort to distinguish between what payments are made on behalf of which employee. Even those filing quarterly don't have to match payments to specific workers.

The only time employers have to tell the government about payments and earnings made on behalf of individual employees is when they file W–2s. These aren't given to the government until several months into the year.

This is not a problem for a defined-benefit program such as Social Security because an individual's benefit level does not need to be reconciled until retirement. However, this does become an issue for defined contribution plans in which individuals want to track every dollar contributed in their name.

There is a considerable lag—as much as seven to 22 months—between the time taxes are collected and the funds are credited to an individual's name by the Social Security Administration (SSA).

Over 240 million W–2s are filed per year on behalf of 140 million people (35–40 percent of workers—58 million—have annual earnings reported to SSA from more than one employer).

Thirty percent of W–2s are still filed on paper by 6.5 million employers. Eighty-five percent of employers still submit forms on paper.

Only 100,000 employers provide data to the government on magnetic tape (the easiest format to deal with).

Fifteen million individuals file as self-employed, who have their own unique reporting system through the Internal Revenue Service (IRS). The IRS then reports to the SSA at a later date. Further complicating matters, one-half of the self-employed also work for employers that send a W–2 to the SSA on their behalf.

March-September is for processing by the Social Security Administration (verification of names, wages etc.).

Five percent of W–2s have information that doesn't match and can't be corrected electronically. SSA then begins corresponding by paper with employers.

After this, SSA is left with approximately 2 percent (4.5–5 million W–2s) of what is submitted that can't be reconciled. This error rate would probably not be acceptable under a system of private accounts.

About 650,000 employers go out of business or start new businesses each year (represents a 10 percent turnover rate). This makes it even more difficult to reconcile information.

Adding new administrative tasks, such as more frequent reporting requirements, could put a substantial financial and time burden on employers and increase the costs for a system of private accounts.

According to the results of a survey by the Employee Benefits Research Institute (EBRI) study:

> Employers do not want to have to implement or administer a new system of private accounts. On average, employers were only willing to spend $400 total on all aspects of implementation. Eighteen percent consistently said they were willing to spend nothing.

In addition, most small businesses have little or no experience administering 401(k) plans. Only 10 percent of small businesses offer a pension plan.

Privatization proponents cannot continue to gloss over the substantial burden a privatized system of individual accounts would place on our nation's businesses, particularly small businesses.

Public Education Challenges

Privatization will obviously create winners and losers. A significant public education component would be required to ensure individuals, particularly lower-income individuals, fully understood the choices available to them. Keep in mind that misleading marketing in the partially privatized British system led millions of pensioners to invest disadvantageous ways. This led to sanctions against fund managers and demands for a multi-billion government bailout of pensioners.

According to the National Center on Education Statistics, 21 percent of the adult population has only rudimentary reading and writing skills (at or below the fifth-grade level).

As the former Chairman of the Securities and Exchange Commission, Arthur Levitt, put it, there is a wide gap between financial knowledge and financial responsibilities.

A variety of surveys by the SEC, the Securities Industry Association, and the Vanguard Group have shown this disconnect. These studies have shown:

> 47 percent of 401(k) plan participants believe stocks are a component of money market funds;
> 55 percent thought they could not lose money in government bond funds;
> Less than half of all investors correctly understood the purpose of diversification;
> Over half of all Americans do not know the difference between a stock and a bond; and
> Only 16 percent said they have a clear understanding of what an IRA is.

Privatization advocates do a disservice to informed debate when they pretend that all Americans will win if they play the market. That clearly is not the case. And, those who have the most to lose by dismantling the guaranteed safety net offered by Social Security—lower-income Americans—are the same people who are most ill-prepared to make critical investment choices.

The Chilean Model

Finally, a few individuals who have attended my town halls have wondered about the privatized Chilean system that privatization advocates have touted as a model for the United States. Let's take a closer look at the Chilean system.

Either advocates of the Chile privatization model haven't actually studied the details of the Chilean system, or they believe America's seniors deserve a more volatile retirement system with lower benefits and larger profits for private money managers.

The first thing to understand about the privatized Chilean pension system is that it was imposed by a military dictatorship in 1981. Tellingly, however, the dictatorship protected one class of citizens, the military, which continues to receive pensions under the state-sponsored pension system.

The privatized system in Chile has also been less far less efficient than the previous social insurance system. Adding up the pensions under the privatized system and those still being paid under the previous system, along with cost of the minimum pension guarantee (the government subsidizes the private accounts if the rate of return you received from the market is too low), and the privatized system is at least three times as costly to run as the social insurance system it replaced.

While the early returns on private accounts looked high, the returns were primarily attributable to one-time events—the selling-off of state enterprises and extremely high interest rates—with no relevance to the returns possible in the United States. In 1995, average returns fell to negative 2.5 percent, and have averaged only 1.8 percent over the last several years.

Further, the administrative costs of the privatized Chilean system have run around 15–20 percent of annual contributions. By contrast, the administrative costs of Social Security in the United States are less than one percent. Commissions to private money managers in Chile reduced the average return in the early years of privatization from 12.9 percent to a mere 2.1 percent. That helps explain why the profit margins of the money managers averaged more than 22 percent.

There are also problems with underreporting of contributions by businesses and individuals as well as inadequate coverage from private pensions (40 percent of beneficiaries require additional assistance).

Conclusion

Social Security is a fundamentally sound program that offers guaranteed, inflation-protected, annuitized benefits for retirees, the disabled, and survivors. These benefits simply cannot be duplicated by the private sector. While the program faces modest financial challenges decades in the future, those challenges can be managed without dismantling the current system via privatization.

Chairman SHAW. Well, I agree with you as far as tough choices.

Mr. Nadler? And I would like to invite Mr. Rodriguez to come over. We will go to Mr. Nadler, Mr. Smith, and then Mr. Rodriguez.

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

Mr. NADLER. Thank you very much, Mr. Chairman, for the invitation to testify before the Subcommittee today.

I agree with the basic premise of this hearing that we must act now to improve Social Security benefits for women, to ensure that seniors get their promised benefits, and to improve public information about Social Security, its benefits, and its finances.

The President, however, is working in the complete opposite direction. His privatization proposals will cut benefits and raise the retirement age and completely mislead the public about Social Security and its finances. In fact, his recent statement completely misleads the public, as Paul Krugman showed in the New York Times yesterday, when the President said that if someone had invested his money instead of putting it into Social Security, had invested it in stocks 45 years ago, he would have three times the amount of—he could get now three times—he could retire on three times the benefits in Social Security. That is totally misleading. It ignores the fact that for the last 45 years his taxes would not have been paying for the current generation of retirees, so how would their retirements have been financed. It ignores the fact that his taxes were partially paying for survivors and disability benefits. And, yes, if you completely ignored the current generation of retirees and if you eliminated survivors benefits and disability benefits, and if the stock market went up all the time, then, yes, the President's calculations would be correct. But without those assumptions, the President's calculations are totally misleading.

The President's Social Security Commission recommended privatizing Social Security, cutting benefits for women, raising the retirement age, and weakening the guarantee of promised benefits. In short, it called for "ending Social Security as we know it," which is, I think, a fair summary of all their various proposals.

The Commission sought to confuse and mislead Congress and the American people about the financial status of Social Security. Their initial draft report included obvious misstatements and scare tactics about Social Security's finances.

The American people should know that, despite a new a Bush budget deficit, a war, a recession, and the dramatic fall of stock prices in the past year, Social Security never lost a dime. In fact, seniors got an increase in Social Security benefits, and the program still has a large budget surplus.

Of course, if the program had been partially privatized, Social Security would have taken a tremendous hit. But as it is, it didn't lose a dime.

This is not to say that Social Security is perfect. We must improve Social Security benefits for women to make the system fair to both sexes. Many women, unfortunately, still lag behind men in salary. Women often work outside of the home fewer years than men, since women still bear a disproportionate share of society's burden of raising children and caring for the elderly. As a result, women get smaller Social Security checks, on average. The formula for calculating benefits should be changed to account for time spent caring for children or the elderly. Social Security payments for widows and widowers should be increased. Furthermore, we must reexamine Social Security's policies as they relate to divorce. Divorce is a fact of life for all too many Americans, and Social Security should not punish elderly divorced women.

One thing that certainly will not help women or anyone else is privatization.

Privatization is unfair, unworkable, and unnecessary.

Why is privatization unfair? Privatization, or the diverting of revenue from Social Security into personal accounts, will dramatically worsen the financial condition of Social Security and require significant cuts in guaranteed benefits.

Let me point out, by the way, that those who say, well, we have got a problem, here is our solution, where is yours, those of you who oppose privatization, that is beside the point. Privatization makes the problem worse, not better. It doesn't help the problem. It worsens Social Security's finances. That being the case, you can't stand there and say, well, where is your solution, unless you are saying, well, we don't have a solution, do you?

This would have a dramatically effect especially on retired women and women nearing retirement, not to mention cuts to existing survivor and disability payments, putting children and those with disabilities at risk. It is just plain unfair. It will decrease or eliminate the leveling effect of Social Security which gives middle- and lower-income people higher relative benefit in order to provide a basic income support for all and will, therefore, increase the disparity in the system. Privatization hurts women, who generally earn less, live longer, and take time out from the paid work force to care for children.

Why is privatization unworkable? It cannot restore solvency to an insolvent system. Diverting 2 or 4 percent of payroll to individual accounts simply makes the funding problem worse. Privatization plans that claim to restore solvency to Social Security do so only because they also cut guaranteed benefits, increase the retirement age, or create huge deficits in the non-Social Security Federal budget. Cutting benefits, raising the retirement age, or adding general fund revenues can make the program solvent with or without private accounts. The transition costs to a private system are enormous. Furthermore, $1.6 trillion of the surplus no longer is available to finance the transition costs because of the tax cut.

Why is privatization unnecessary? Last, the trustees predict a system that is solvent for 35 years and with more realistic economic assumptions is probably solvent as far as the eye can see. The trustees' predictions have been wrong—overly pessimistic—every year for the last 8 years. Every year they have postponed the date of trust fund insolvency or projected trust fund insolvency, despite their statements that the situation is getting worse and worse. A reading of their—can I have another 30 seconds, sir? Thank you.

A reading of their reports from 1993 to 2001 show the system getting healthier every year without any changes being made to the system. The trustees' pessimistic predictions are unreliable because they don't take into account the effect of the predicted long-term labor shortage on wages, productivity, unemployment, or immigration policy.

We all know that stock investments are risky. A privatization scheme that would, of necessity, drastically reduce guaranteed benefits and depend on stock investments to make up the balance might very well work out well for many, but could leave millions of others in poverty. To avert this, some of the congressional privatization plans are now so risk-averse that they don't make any money and don't solve any problems. In order to minimize risk, these plans limit investments to lower-risk bonds, but then the rate of return is smaller and the accounts will not make up for the cuts in guaranteed benefits. It just doesn't add up.

[The prepared statement of Mr. Nadler follows:]

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

Thank you, Mr. Chairman, for the invitation to testify before this Committee on Social Security.

I agree with the basic premise of this hearing, that we must act now to improve Social Security benefits for women, to ensure that seniors get their promised benefits, and to improve public information about Social Security, its benefits, and its finances.

However, the President is working in the complete opposite direction. His privatization proposals will cut benefits and raise the retirement age, and completely mislead the public about Social Security and its finances.

The President's Social Security Commission recommended privatizing Social Security, cutting benefits for women, raising the retirement age, and weakening the guarantee of promised benefits. In short, it called for "ending Social Security as we know it".

I believe that the Commission sought to confuse and deliberately mislead Congress and the American people about the financial status of Social Security. Their initial draft report included obvious misstatements and scare tactics about Social Security's finances.

The American people should know, that despite a new Bush Budget deficit, a war, a recession, and the dramatic fall of stock prices in the past year, Social Security never lost a dime. In fact, seniors got an increase in Social Security benefits, and the program still has a large budget surplus.

This is not to say that Social Security is perfect. We must improve social security benefits for women to make the system fair to both sexes. Unfortunately, many women still lag behind men in salary. Women often work outside of the home fewer years than men, since women still bear a disproportionate share of the burden of raising children and caring for elderly parents. As a result, women get smaller social security checks. The formula for calculating benefits should be changed to account for time spent caring for children or the elderly. Social Security payments for widows and widowers should be increased. Furthermore, we must reexamine Social Security's policies as they relate to divorce. Divorce is a fact of life for all too many Americans, and Social Security should not punish divorced elderly women.

One thing that certainly will not help women or anyone else is privatization.

Privatization is unfair, unworkable, and unnecessary.

Why is privatization unfair? 1) Privatization, or the diverting of revenue from Social Security into personal accounts, will dramatically worsen the financial condition of Social Security and require significant cuts in guaranteed benefits. This would have a dramatically negative affect especially on retired women and women nearing retirement. Not to mention cuts to existing survivor and disability payments—putting children and those with disabilities at risk. That is just plain unfair. 2) Privatization will decrease or eliminate the leveling effect of Social Security, which gives middle and lower income people higher relative benefit in order to provide a basic income support for all. It will increase the disparity in the system. 3) Privatization hurts women—who generally earn less, live longer, and take time out from the paid workforce to care for children.

Why is privatization unworkable? 1) Privatization cannot restore solvency to an insolvent system—diverting 2% or 4% of payroll to individual accounts simply makes the funding problem worse. It would hasten the insolvency of the system. 2) Privatization plans that claim to restore solvency to Social Security, do so only because they also cut guaranteed benefits, increase the retirement age, or create huge deficits in the non-social security federal budget. Cutting benefits, raising the retirement age, or adding general fund revenues can make the system solvent with or without private accounts. 4) The transition costs to a private system are enormous. Furthermore, $1.6 trillion of the surplus is no longer available to finance the transition because of the tax cut. 5) There are large administrative costs to setting up millions of small investment accounts. Why not simply put that money into Social Security directly to make the system more solvent?

Why is privatization unnecessary? 1) The trustees predict a system that is solvent for 35 years and with more realistic economic assumptions, is probably solvent as far as the eye can see. 2) The Trustees predictions have been wrong (overly pessimistic) every year for at least eight years. Each year they have postponed the date of Trust Fund insolvency despite their statements that the situation is getting worse and worse. A reading of their reports from 1993 to 2001 show the system getting healthier every year without any changes being made to the system. 3) The Trustees' pessimistic predictions are unreliable because they don't take into account the effect of the predicted long term labor shortage on wages, productivity, unemployment, or immigration policy. I would be happy to go into more detail if you wish during the question and answer period.

We all know that stock investments are risky. A privatization scheme that would, of necessity, drastically reduce guaranteed benefits and depend on stock investments to make up the balance might very well work out well for many, but could leave millions of others in poverty.

To avert this, some of the Congressional privatization plans are now so risk adverse that they don't make any money, and they don't solve any problems. In order to minimize risk, these plans limit investments to lower risk bonds and mutual funds. Fine, but then the rate of return is smaller, and the accounts are less likely to make up for the cuts in guaranteed benefits needed to set up the accounts. Privatization just doesn't add up. And this ignores the transition and administrative costs.

Nevertheless, it is clear that this Administration and most Republicans in Congress want to privatize social security, which is a fancy way of saying they want to cut benefits and raise the retirement age. Presumably, they understand what they are asking for. I hope the American people understand their plans as well.

I must add a word about Enron. Tragically, many Enron employees lost millions of dollars in their retirement funds because they were invested in the private market. Imagine if their Social Security funds were invested in Enron as well.

Some people made millions off of Enron, but many more lost everything. That is what happens in the private financial markets. Some people win and some people lose. People who invest need to understand these risks. As Members of Congress, we are the real trustees of Social Security. We know that everyone cannot hit it big on the stock market, and that many must lose.

I believe if given the choice, most Americans would choose a rock-solid Social Security guarantee, to a stock market gamble.

Thank you, Mr. Chairman.

Chairman SHAW. Mr. Smith?

STATEMENT OF THE HON. NICK SMITH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MICHIGAN

Mr. SMITH. Mr. Chairman, thank you. Delighted to be a cosponsor of your bill. It helps move us ahead in the debate and discussion.

I started writing my first Social Security bill actually when I was in the State Senate before I came to Congress, introduced my first bill in 1994, and have introduced four bills that have been scored by the Social Security actuaries as keeping Social Security solvent.

It seems to me, Mr. Chairman, that one thing should be just so absolutely made clear, and that is that the cost of doing nothing is greater than proposals to help accommodate the insolvency of Social Security.

Mr. Nadler, you suggest that the economy, if it is strong and wages are high, that it is going to help. It is only going to help in the short run. In the long run, because we tie benefits to wages, those resulting retirement benefits of the higher-wage earner are going to neutralize the fact that we have a strong economy in the short run. That is why when I first introduced my first bill in 1994, we had a lot more surplus coming in from the Social Security Administration. Using that surplus for the transition, which is the huge challenge in going to any system that is going to give a greater return and help solve the problem is something that we need to do and deal with now rather than putting off.

I have heard a lot of people say that the problem really doesn't hit until 2034 or 2036 when the trust fund runs out. The fact is we need to talk about and decide in any discussion what we are going to do in terms of coming up with the money starting in 2014 or 2016 when the Social Security taxes are less than what is needed to accommodate promised benefits.

The estimate now by the actuaries is today's unfunded liability ranges someplace between $7 and $9 trillion. Put in tomorrow's dollars, that means over the next 75 years we are going to have to come up—if we do nothing—have to come up with $120 trillion more than comes in from the Social Security tax.

Part of the question that we are facing also is how long individuals are going to live. We are now looking at some of the futurists' projections that individuals within the next 30 years are going to have the option to live to be 100. It not only tremendously complicates every private retirement plan, but certainly the government's.

In my bill, I reduce benefits for the higher income at the same time I allow some personal investment. Government is always going to pay these benefits. So, again, let me stress my opinion that the question is: Can we do something to Social Security that is going to reduce the long-term costs of doing nothing? The answer is yes. In my bill, the cost of not doing anything is approximately 18 percent greater in total cost than coming up with my bill that uses the traditional market returns that the actuaries have suggested is going to be something like 6.8 percent.

I would like to agree with Congressman Nadler in the benefits for women. I have three provisions.

One is account sharing for married couples so that you add the husband and wife together and divide by two, so each individual has their personal account that is exactly the same; and if you do have a divorce, then they still have their individual equal accounts based on the income earnings of both individuals divided by two.

The imputed earnings for non-working spouses it seems to me is a policy we would like to encourage mothers to stay home with children, so mothers that are staying home with any child that is under 3 years old gets, if you will, a free credit year at her ultimate maximum earning.

Also, what I do is for the surviving spouse increase it from 100 percent to 110 percent for the surviving spouse to encourage staying in their own home.

In my legislation, I am also, Mr. Chairman and Mr. Matsui, trying to go a little further than just Social Security. I am doing retirement Social Security. So I am involving in additional legislation that will encourage additional savings and investment for individuals with fewer tax penalties, if you will, to encourage other savings in both the Roth IRA, the 401(k), and other venues of the Committee on Ways and Means that will allow individuals, encourage individuals, to save more.

I think in my conclusion, since the light has turned red, it is just so important we move ahead with this. My experience in introducing these four bills that were scored to be solvent is that each bill, because we give up the time period of the surplus coming into Social Security, every year we give up something that is not going to be there anymore, every proposal I have had has to be somewhat more drastic and more complicated to end up with a scoring that can then make it solvent. So, again, the longer we put this off, the worse we are going to be.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Smith follows:]

Statement of the Hon. Nick Smith, a Representative in Congress from the State of Michigan

- *The atmosphere on the topic of Social Security reform has changed quite a bit since I started working on this in 1993 and introduced my first bill in 1994.* The President's commitment to reform could push this effort over the top.

The Social Security Solvency Act

- *I hope that Congress will consider offering my bill or something similar to strengthen Social Security.* My bill is a carve-out approach, allowing workers to invest 2.5% of their paycheck into an account they own and control. It has generally transparent financing, with an infusion of cash from the general fund in the beginning, to be repaid later. It includes, however, a number of features that should be considered.
- *The Transition Problem.* As you all know well by now, nearly any Social Security reform plan based on savings would be more stabile and generate greater returns over the long-term than what we can expect from the current pay-as-you-go system. The difficulty, however, is getting from here to there. So let me discuss a few of things I did to smooth the transition.
- *New bend point for benefit calculations.* My legislation would create a new, 5% bend point affecting higher earners. The introduction of the bend point is phased in to prevent the creation of notch. This will significantly restrain the growth of benefits for higher earners. This is necessary to maintain the progressivity of the Social Security benefit structure, in my view, because a worker-owned account based on a percentage of income will allow higher-income individuals to save more in their accounts than lower-income individuals.
- *Multiple tiers of account management.* Worker-owned accounts pose some challenges related to controlling administrative costs. My proposal does this

by limiting fairly sharply the range of investment options available before an account reaches $2,500 in assets.

Benefit protections for women

- *Account sharing for married couples.* A private account plan needs a way to provide for nonworking spouses. My solution to this problem to split the contributions made by a married couple equally between each spouse's account. This also simplifies the division of account money in the case of divorce or separation.
- *Imputed earnings for nonworking spouses who care for children.* My bill would reduce the length of the earnings history that AIME is calculated on for a spouse who takes time off to care for a child between birth and three years of age. This could reduce the 35 year work history period by as much as five years.
- *Increase in widow and widower benefits.* My bill would increase the deceased spouse benefit from 100% of the deceased spouse's benefit to 110%. This is designed to help some surviving spouses who are squeezed by the need to maintain their household.

Doing the whole job

- *We need to settle on one proposal that restores the solvency of the Social Security system.* This is where the President's Commission fell down on the job by offering three proposals. The controversy this causes makes people nervous. People are justifiably worried that the benefits that they've paid for are in jeopardy. I think that reform has to answer the question, "Where are my benefits going to come from?" If it doesn't, the public will be skeptical, and rightly so.
- *Resolving the Social Security shortfall is critical to our long-term financial health.* We now face a series of financial challenges related to the aging of our population. Social Security is one, but we also have to resolve the even more serious shortfalls in Medicare and Medicaid that are looming.
- *There's a huge benefit to tackling the Social Security problem sooner rather than later.* Today, compound interest is working against the solvency of our pay-as-you-go financing system. If we begin to save some money to help pay benefits, compound interest will start to work in our favor.
- *We should be bold in our recommendations.* Compromises will be made on any proposal set forth. So don't compromise before the negotiations begin.

Chairman SHAW. Thank you, Mr. Smith.

Mr. Rodriguez? And I would like to invite Mr. Jones and Mr. Etheridge, if you can find room at the table, and we will just keep going with the witnesses and handle everybody as one panel.

Mr. Rodriguez?

STATEMENT OF THE HON. CIRO D. RODRIGUEZ, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. RODRIGUEZ. Chairman Shaw and Ranking Member Matsui, let me thank you for the opportunity to be here before you as we discuss the important challenges facing Social Security.

I serve as the Vice Chairman of the Congressional Hispanic Caucus (CHC) and proudly represent the 28th Congressional District of Texas. As Members of the CHC, we all come from various districts throughout the country, urban and rural. As an example of this diversity, I can share that my district is the seventh producer of peanuts in the country. I want to highlight the importance of diversity within the CHC and within our own districts.

I am here to speak about Hispanics and Social Security and the drastic effects to the system will have on this vulnerable population.

We must remember the initial purpose of Social Security, and that is, a retirement system created to help alleviate poverty among elderly Americans. Social Security has become the single most effective Federal anti-poverty program in our history, lifting more than 11 million seniors from poverty.

Latinos are critically affected by the proposed changes to our Social Security system. A significant segment of the workforce, Latinos represent a disproportionate percentage of those who lack employer pension coverage.

We work in small companies. We are underrepresented in Federal and State jobs. And so, we usually come from segments of the workforce that do not have any pension coverage. More than other segments of the general population, Latinos depend heavily on Social Security for their dignity in their senior years.

The Latino population is growing rapidly. Currently Latinos represent 8 percent of the total U.S. workforce, and by 2010, Latinos are projected to account for 13.2 percent of the work force. From 1997 to the year 2020, the number of Latinos that are 65 years and older is projected to double. Unfortunately, despite gains in education and other areas, Latinos still remain concentrated in low-wage jobs that provide few benefits. While more than half—I will repeat that—more than half, 51 percent of Anglo workers have employer pension coverage, the same is true for only 32 percent of Latinos. So you can see that a disproportionate number of Latinos rely on Social Security.

Accordingly, Latino retirees are more than twice as likely as Anglo retirees to rely solely on Social Security benefits as a means of economic support. In addition, Latinos are less likely than Anglos to receive income from interest on savings and investments. For example, in 1998, of all of the persons reporting interest income, only 5.3 percent were Latinos.

I would like to applaud the efforts of this Subcommittee to pay special attention to the needs of women.

While reforming the Social Security system has serious implications for Latinos, the women in our community, the Latinas, may be the most severely impacted of all. Latinas are more likely than other women to work inside the home and are less likely than other women to have retirement savings. Moreover, Latinas are less likely than other workers to have access to private pension coverage, and they tend to receive the lowest wages of all workers. Latinas relying heavily on Social Security benefits. Changes in marital status or loss of principal wage earners places Latinas in particularly vulnerable situations.

Given the paramount importance of Social Security to Hispanic men and women, we must approach so-called reform efforts with caution, weighing the impact on this key and fast-growing population.

I am concerned that the plans to privatize Social Security would drain needed resources from the Social Security Trust Fund and jeopardize benefit payments to retirees and disabled workers and their survivors. The leading plan proposed by the President's handpicked Social Security Commission would drain $1.5 trillion from the trust fund in just the next 10 years, money that is already being used for other purposes.

Privatization would require cuts in guaranteed Social Security benefits. The President's Social Security Commission recommended a privatization plan that cuts benefits for future retirees by up to 46 percent. Everyone would be subject to these cuts—not just workers who choose to have an individual account. And Latinos would be hit the hardest.

Social Security privatization would expose individual workers and their families to the greatest financial risk. Under privatization, benefit levels would be determined by the volatile stock market, and we all know the problems that that might cause.

Latinos who are more than other groups dependent on Social Security as a guaranteed income stream in retirement would lose under privatization.

Other proposals, while well-meaning, will not help us reach our goal of ensuring the future solvency of Social Security. For example, the proposed guarantee certificates would not address our needs.

I would like to take this opportunity and ask that I be able to submit additional testimony for the record.

As we look at the impacts that privatization and other proposals like the guarantee certificates would have on Social Security, it is importance to highlight specific populations.

In addition to Latinos, we must consider the baby boomers and their kids and the impact on them and finally how we can achieve solvency in the future. I ask that you proceed with caution before making any decisions.

Thank you for allowing me to be here before you.

[The prepared statement of Mr. Rodriguez follows:]

Statement of the Hon. Ciro D. Rodriguez, a Representative in Congress from the State of Texas

Thank you, Chairman Shaw and Ranking Member Matsui, for the opportunity to address the Subcommittee on Social Security in reference to "improvements" to the Social Security system for women, seniors, and all working Americans.

I serve as Vice Chairman of the Congressional Hispanic Caucus and proudly represent the 28th Congressional District of Texas. I am pleased to be here today.

As you may know, the Congressional Hispanic Caucus (CHC) is comprised of 18 out of the 21 Hispanic Members of Congress. CHC Members represent diverse districts and populations throughout Arizona, California, Guam, Illinois, New Jersey, New York, Puerto Rico, and Texas. Our Members are as varied as the districts we represent, but we all recognize and support the need to address ethnic and racial disparities impacting our community.

Latinos are critically effected by any proposed changes to our Social Security system. A significant segment of the workforce, Latinos represent a disproportionate percentage of those who lack employer-pension coverage.

The Social Security retirement system was created to help alleviate poverty among elderly Americans and meet the retirement needs of all workers. Social Security has become the single most effective federal anti-poverty program in our history. Its benefits lift more than 11 million seniors out of poverty.

Social Security provides a real and necessary safety net for seniors who lack other retirement options, whether it be a pension provided by an employer or retirement savings accounts. Seniors do not profit from Social Security, but they do have the chance for a dignified retirement. More than other segments of the population, Latinos depend heavily on Social Security to live their senior years in dignity.

DEMOGRAPHICS—LATINO GROWTH

The Latino population is growing rapidly. By the year 2005 Latinos are projected to become the largest minority group in the United States and a significant segment of the workforce. Currently Latinos constitute 8 % of the total U.S. workforce; by 2010 Latinos are projected to account for 13.2% of all workers.

Moreover, projections tell us that from 1997 to 2020 the number of Latinos 65 years of age will nearly double.

LACK OF RETIREMENT INCOME

Unfortunately, despite gains in education and other areas, Latinos still remain concentrated in low-wage jobs that provide few benefits. Many do not have very many resources when they reach retirement age.

While more than half (51%) of Anglo workers have employer-pension coverage, the same is true for only one third (32%) of Latino workers.

Accordingly, Latino retirees are more than twice as likely as Anglo retirees to rely solely on Social Security benefits as a means of economic support. In addition, Latinos are less likely than Anglos to receive income from interest on savings and investments. For example, in 1998, of all persons reporting interest income, only 5.3% were Latino.

These figures highlight the need to include Latinos in the debate of "improvements" to the Social Security system for working Americans.

LATINAS

I would like to applaud the efforts of this committee to pay special attention to the needs of women within the general discussion of Social Security reform efforts. In light of this very necessary and critical focus, I would like to take a moment to highlight the specific needs of Latinas, the women in our community.

While reforming the Social Security system has serious implications for all Latinos, Latinas may be the most severely affected by reform efforts. Latinas are more likely than other women to work inside the home and are less likely than other women to have retirement savings. Moreover, Latinas are less likely than other workers to have access to private pension coverage.

Overall, they tend to rely heavily on Social Security benefits, and they tend to receive the lowest wages of any group of workers. As a result, changes in marital status or loss of a family member who is the principal wage earner places Latinas in a particularly vulnerable situation.

PRIVATIZATION

Given the paramount importance of Social Security to Hispanic men and women, we must approach so-called reform efforts with caution, weighing the impact on this key, fast-growing population.

I am concerned that the plans to privatize Social Security would drain needed resources from the Social Security Trust Fund and jeopardize benefit payment to retirees, disabled workers and survivors. The leading plan proposed by the President's appointed Social Security commission would drain $1.5 trillion from the Trust fund in just the next 10 years, money that is already being used for other purposes.

Privatization would require cuts in guaranteed Social Security benefits. The President's Social Security commission recommended a privatization plan that cuts benefits for future retirees by up to 46%. Everyone would be subject to this cut—not just workers who chose to have an individual account.

Finally, Social Security privatization would expose individual workers and their families to much greater financial risk. Under privatization, Social Security benefits would no longer be determined primarily by a worker's earnings and the payroll tax contributions he or she made over their career. Rather, benefit levels would be determined by the volatile stock market, by a workers luck in making investments, and by the timing on his or her decision to retire. In light of the Enron disaster, we know the risk.

GUARANTEE CERTIFICATES

Other proposals, while well-meaning, will not help us reach our goal of ensuring the future solvency of Social Security. For example, the proposed "guarantee certificates" offered by several of my colleagues would "guarantee" full and timely payments of Social Security benefits for a beneficiary's lifetime, plus cost of living adjustments.

Several question have been raised as to the legal effect of these bills as introduced. I await the answers to surface.

But even if those questions are resolved, the certificates would not change the budget crisis we face, would not help reduce our national debt, would not remove the risk of privatization, let alone expand benefits to meet growing, future needs.

I worry that these initiatives would spend 10 million dollars and divert us from the true work at hand. We need to focus on reaching a bipartisan agreement to provide a true guarantee of Social Security benefits by making the Trust Fund financially healthy over the next 75 years.

All Americans, to one degree or another, benefit on the continued success of Social Security. For many Americans, and particularly those in the Hispanic community, Social Security provides the shield against poverty and destitution. Our national values should include caring for our elders, and for providing a helping hand to the disabled among our workforce.

I thank the subcommittee for the opportunity to share my views, personally thank Chairman Shaw and Ranking Member Matsui and the other Members here for taking the time to listen to my testimony today.

Chairman SHAW. Thank you. Mr. Etheridge?

STATEMENT OF THE HON. BOB ETHERIDGE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NORTH CAROLINA

Mr. ETHERIDGE. Thank you, Mr. Chairman. I want to thank you and the Ranking Member for allowing me to testify today. I know you have had a long day. I was here earlier this morning. I appreciate your time.

You know, Social Security is—and I don't know that I will say anything new that hasn't already been said today. But Social Security has been the bedrock of American security for a long time, really since 1935, and it has been our Nation's probably most successful government initiative, lifting millions of seniors and working families out of poverty.

There was a time when, before Social Security, Mr. Chairman—and as I read history—when many of our seniors suffered in abject poverty, and too often many of them did not have the basic human needs of food and shelter. Many died homeless on the streets in this country.

The creation of Social Security is one of the landmark achievements of the 20th Century. Together, we declared that seniors should not be forced to live in Third World poverty here in America. Together, we made a compact with our seniors, like my mother and my mother-in-law, who both lost their husbands at earlier ages. If they would work hard, then you and I and others would make sure that we cared for them as they aged.

And, Mr. Chairman, Congress does not have the right to break that compact.

Now Social Security is facing a serious challenge. The solvency of the system will deteriorate over the next few decades, and we must act to uphold our end of that compact. There are those, including the Commission that the President appointed, who feel that privatization of Social Security is the answer to the problem. And I respectfully disagree.

Last year, the President appointed this Commission on Social Security. Unfortunately, that Commission was a stacked deck, in my opinion. Every single member of that Commission supported privatization. That is fine if you want to go that way, but it is not fair to the other folks who should have a seat at the table. The Commission was forced only to consider privatization plans and did not include a single Member who represented the groups that would be more affected by changes in the system, for instance, minority, women, and seniors. In the end, the Commission offered three flawed plans, in my opinion, to privatize Social Security and failed to provide a plan to restore the solvency of the system.

Mr. Chairman, I cannot support any privatization plan that would jeopardize the retirement security of our seniors and working families. Many of them do not have a second plan. I think the recent Enron scandal clearly demonstrates that we cannot allow the retirement system and security of working people in America to become victims of unrestricted corporate greed. And that is just what we saw.

Social Security was designed to be a safety net and to be a compact between generations, not a privatized vehicle to create wealth for some and wind up leaving others in poverty.

There are many problems with privatization of Social Security. First, taking money out of the trust fund to create private accounts would fundamentally weaken the system. One plan offered by the Commission would remove $1.5 trillion from the trust fund over 10 years. I am not going to get into all the details.

Privatization also means benefit cuts. Another of the Commission's plans would reduce the benefits promised to future retirees by as much as 46 percent. Every plan has a "clawback" provision. That means that in a privatized system, beneficiaries will not receive both the full value of their private accounts and along with their full Social Security benefits. And there are a lot of people who are depending on it.

In addition, a system based upon individual accounts would also disproportionately, as we have heard already, hurt women because they would suffer from low account deposits and likely lose their spousal benefits. Minorities would be literally shortchanged because private accounts would erode the progressivity of the system. Finally, the transition costs associated with privatization puts the system's solvency and the retirement security of those who depend on it at risk.

I am disappointed that the majority now proposes to issue certificates to Social Security recipients. It bothers me because it reminds me of last year when we passed and sent a letter to every taxpayer that they were going to get a tax cut.

Mr. Chairman, I held a townhall meeting in Rocky Mount, and a lady came up to me and wanted to know where her $600 was. And she showed me the receipt that she got $3 and change, and she was quite upset. She had lost her job, had to sell her car to provide food for her family. You know, these kinds of things aren't what we ought to be about in good policy. What people want is us to sit down as caring, elected representatives and come up with solutions and not play "gotcha" with their lives. People want their representatives to do what is right.

I will close, Mr. Chairman, with saying that I trust we won't do the certificates. I am willing to work with anyone in good faith to strengthen the bedrock of Social Security. It is important. But we must put aside our gimmicks and ideological differences like phony guarantee certificates and privatization plans, and work together to make Social Security what it was intended to be, what it has always been, for those who are living on the edge who really have nothing else. We have a responsibility. Time is running out.

Thank you, Mr. Chairman, for allowing me to be here today, and I look forward to working with anyone to get the job done.

Thank you.

[The prepared statement of Mr. Etheridge follows:]

Statement of the Hon. Bob Etheridge, a Representative in Congress from the State of North Carolina

Mr. Chairman, I want to thank you and Ranking Member Matsui for allowing me to testify today.

Social Security is the bedrock of American retirement security. Since President Franklin Roosevelt signed it into law in 1935, Social Security has been our nation's most successful government initiative lifting millions of seniors and working families out of poverty. But, there was a time before Social Security, Mr. Chairman, a time when seniors suffered in abject poverty. Too many couldn't afford basic human needs like food and shelter. Too many died homeless in the streets.

The creation of Social Security is one of the landmark achievements of the 20th Century. Together, we declared that seniors should not be forced to live in third-world poverty here in America. Together, we made a compact with our seniors like my mother and my mother in-law that would last from generation to generation. That compact said that if you work hard all of your life; you and your family will be cared for in your old age.

Mr. Chairman, Congress does not have the right to break that compact.

Now, Social Security is facing a serious challenge. The solvency of the system will deteriorate over the next few decades and we must act to up hold our end of the compact. There are those, including the President, who feel that privatizing Social Security is the answer to this problem. I disagree.

Last year, the President appointed his Commission on Social Security. Unfortunately, that Commission was a stacked deck. Every member on the Commission supported privatization. The Commission was forced only to consider privatization plans and did not include a single member who represented the groups that would be most effected by changes in the system—beneficiaries, minorities, women, and seniors. In the end, the Commission offered three flawed plans to privatize Social Security, and failed to provide a plan to restore solvency to the system.

Mr. Chairman, I cannot support any privatization plan that would jeopardize the retirement security of our seniors and working families. The recent Enron scandal clearly demonstrates that we cannot allow the retirement security of working Americans to become the victim of unrestrained corporate greed. Social Security was designed to be a safety net compact between generations, not a privatized vehicle of massive wealth for some and massive poverty for others.

There are many problems with privatizing Social Security. First, taking money out of the Trust Fund to create private accounts would fundamentally weaken the system. One plan offered by the President's Commission would remove $1.5 trillion from the Trust Fund over 10 years. Republican Leader Armey's privatization bill, H.R. 3135, would drain the Trust Fund of so much money that Social Security would begin paying out more benefits than it brings in by 2003—next year.

Privatization also means benefit cuts. Another of the Commission's plans would reduce the benefits promised to future retirees by 46%. Every privatization plan has a "clawback" provision. That means that in a privatized system beneficiaries will not receive both the full value of their private account and along with their full Social Security benefits.

In addition, a system based upon individual accounts would also disproportionately hurt women because they would suffer from low account deposits and likely lose their spousal benefits. Minorities would be literally short-changed because private accounts would erode the progessivity of the system. Finally, the transition costs associated with privatization puts the system's solvency and the retirement security of those who depend on it at risk.

The Republican Majority now proposes to issue sham certificates to Social Security recipients. This reminds me of last year's tax cut, when the Republican Leadership decided to use taxpayer dollars to send letters to every American informing them that they were going to get a tax cut. A constituent of mine from Rocky Mount received one of those letters. It promised her and her family $600. When her check arrived, all she got was $3 and change. She had to sell the family car to pay her family's bills. She was counting on that money.

Mr. Chairman, people count on their Social Security benefits too. And these guarantee certificates would not be worth the paper they would be printed on. We can find something better to do with the $10 million it will cost to send out these worthless certificates. Folks in my District have learned the hard way to be skeptical when this Administration promises them "the check's in the mail."

I am willing to work with anyone in good faith to strengthen the bedrock that is Social Security. But, we must put aside partisan gimmicks and ideological differences like phony guarantee certificates and privatization plans that would only make Social Security's budgetary problems worse. I urge this subcommittee and all of my colleagues in the House to get serious about Social Security reform. **Time is running out.**

Thank you Mr. Chairman for allowing me to join you today.

Chairman SHAW. Mr. Jones?

STATEMENT OF THE HON. WALTER B. JONES, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NORTH CAROLINA

Mr. JONES. Thank you, Mr. Chairman and Ranking Member Matsui. Thank you for this opportunity.

I join each and every one that is here today and that has been here earlier, knowing that we do have an obligation to do what is necessary not only for the current recipients but also for those who are in college and high school. So let me begin my comments by saying that months ago I introduced H.R. 832, the Social Security Guarantee Act, that would help eliminate, I believe, concerns over benefit reduction by seeking to give seniors a stronger claim to their retirement benefits. Specifically, it would require the Secretary of the Treasury to issue to each Social Security beneficiary a certificate including a written guarantee of a fixed monthly benefit, plus a guarantee annual cost-of-living increase. By issuing this certificate, we hope to eliminate the fears of seniors and stop the ugly senior scare tactics that have doomed Social Security reform prospects in the past.

Critics claim the Social Security Guarantee Act is a gimmick because guarantee certificates passed by this Congress are not legally binding on other Congresses and, therefore, can be changed at any time. Mr. Chairman, in reality, H.R. 832 and its guarantee are legally binding because at the very least it will be politically binding. Although a future Congress could change or repeal the new law, once retirees have a written document in their hands explicitly guaranteeing their benefits, in my opinion, few elected representatives would be willing to repeal it.

Other skeptics wonder why the guarantee certificate only covers current retirees and not everyone. Without comprehensive reform of the Social Security program, Congress cannot make the same guarantee for future retirees. Social Security expenditures begin exceeding Social Security revenues in 2016 and by 2038 the trust fund is empty. That is why I believe H.R. 832 is an important first step toward meaningful Social Security reform.

At the end of the day, we as Members of Congress must uphold our moral obligation. We have a duty to our seniors to ensure their retirement security will not be jeopardized. At the same time, we cannot lose sight of the overall goal of reforming the Social Security program so that today's workers will have the retirement that they so richly deserve as they have earned it.

Mr. Chairman, I would like to just make a couple of statements, and then I will close because the gentleman to my right, Jim DeMint, and I have very similar bills, and either one of the bills that the Subcommittee decides they want to take further is fine with me. But I sincerely believe for this debate to move forward—and hopefully we will find a common ground on both sides of the political aisle to do what is right, not only for the current but for the next generation. I believe sincerely even though there are skeptics to this certificate of guarantee, I think it will be most meaningful to those seniors who are beginning to receive their Social Security retirement checks as well as those in the very near future. I want those who might see this as a gimmick to know from my standpoint that I was very sincere when I put this bill in several months ago, because I believe that the seniors will better understand this debate about reform if we can put a certificate of guarantee into their hands, just like when people buy stocks or people buy U.S. savings bonds.

So, with that, Mr. Chairman, I will conclude my comments and thank you and the Ranking Member for giving me this time.

Thank you.

[The prepared statement of Mr. Jones follows:]

Statement of the Hon. Walter B. Jones, a Representative in Congress from the State of North Carolina

- Chairman Shaw, Ranking Member Matsui, thank you for inviting me to speak on the topic of Social Security guarantee certificates. I am pleased to have this opportunity to speak about legislation aimed at protecting the Social Security benefits of our nation's current retirees.
- With the need to reform the Social Security program becoming more pressing, Congress must keep in mind the key principle that any responsible reform plan will assure current retirees that their benefits will not be reduced.
- That principle is nothing less than a moral obligation of a government to its people. Current retirees have worked too hard for a secure retirement to see it jeopardized in the name of reform. Reducing benefits despite this expectation, would be a fundamental breach of trust between the government and retirees.
- The Social Security Guarantee Act would help eliminate concerns over benefit reduction by seeking to give seniors a stronger claim to their retirement benefits. Specifically, it would require the Secretary of the Treasury to issue to each Social Security beneficiary a certificate including a written guarantee of a fixed monthly benefit, plus a guaranteed annual cost-of-living increase.
- By issuing this certificate, we hope to eliminate the fears of seniors and stop the ugly "senior scare" tactics that have doomed Social Security reform prospects in the past.
- Critics claim the Social Security Guarantee Act is a gimmick because guarantee certificates passed by this Congress are not legally binding on other Congresses, and therefore can be changed at any time. In reality, H.R. 832 and its guarantee are legally binding because at the very least it will be politically binding. Although a future Congress could change or repeal the new law, once retirees have a written document in their hands explicitly guaranteeing their benefits, few elected representatives would be willing to repeal it.
- Other skeptics wonder why the guarantee certificate only covers current retirees and not everyone. Without comprehensive reform of the Social Security program, Congress cannot make the same guarantee for future retirees. Social Security expenditures begin exceeding Social Security revenues in 2016 and by 2038 the trust fund is empty. That is why I believe H.R. 832 is an important **first step** toward meaningful Social Security reform.
- At the end of the day, we, as Members of Congress, must uphold our moral obligation. We have a duty to our seniors to ensure their retirement security will not be jeopardized. At the same time, we cannot lose sight of the overall goal of reforming the Social Security program so that today's workers will have the retirement that they deserve as well.

Chairman SHAW. You get extra points for leaving a minute on the table. Mr. DeMint?

STATEMENT OF THE HON. JIM DEMINT, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF SOUTH CAROLINA

Mr. DEMINT. Thank you, Mr. Chairman, and I appreciate all of your work on this issue. You are one of the few who has been willing to put the time into developing a plan of your own and to work out all of the difficulties in guaranteeing the benefits of Social Security in the future.

Chairman SHAW. You get an extra minute.

[Laughter.]

Mr. DEMINT. An extra minute. Thank you. That is what I was shooting for.

Thank you, Congressman Matsui and my colleagues at the end of the row here.

I would like to submit my comments for the record, and I have, if I could, I would like to set those notes aside and just talk from my heart for a minute. Because as has been pointed out many times today, we are talking about America's most important social contract. It is a sacred promise to our seniors, and we need to make sure it is there not only for today's seniors, but for all future generations of Americans.

But as we look at different types of reforms, I think it is important to build a foundation before we do that. I was encouraged this morning, as I heard the debate move from whether or not we should do anything to Social Security to beginning to talk about which plan is the best way to change Social Security. And many have asked, as Mr. Gephardt has, let us have an honest debate. We can't have an honest debate on whether or not to change Social Security. We can have an honest debate on what is the best way to do it, and I feel like maybe the Subcommittee this morning in the discussions have begun to change that gear.

But before we put all of these different debate plans on the table, I think it is real important that the American people know the truth about Social Security, otherwise all of this talk is going to confuse and frighten them. Many of you, as I do, have seniors coming into your office regularly with problems on Social Security. They are so confused and frustrated. They do not understand how it works. They seldom have anything in their hand that tells them what they are supposed to get or if there is any kind of a guarantee that they are going to continue to get it.

They are very confused, and I think it would be easy to say that there is no reason for us to act and guarantee their benefits if there were not discussions up here, as we heard last night from Mr. Gephardt, that there is a secret plan to cut their benefits. This is shameful, and we need to do something of substance that tells these people that their benefits are safe, and they are. We know that, but they don't. We need to do whatever we can to get the truth to them.

There is a lot of talk also about we need to do this because of Enron. Enron did not tell their employees the truth about how their company stood. We need to tell seniors, first of all, that their benefits are safe, and we need to communicate an honest message to working Americans today.

I have proposed, along with Walter Jones and a number of others, that we do what you often do with any contract is you put it in writing. You can call it a gimmick, but we know in this country that it is not a contract, it is not an agreement unless you put it in writing.

Americans need to hear us say that their benefits are guaranteed. They need to see us go down to the Floor and vote to guarantee their benefits, and they need to receive something in writing that tells them that their benefits are guaranteed. We know it, and they need to know it. This is not a gimmick. If we said it is just a piece of paper, we could say the same thing about our Constitution, but that is a clear piece of paper, as far as our intent. Even our currency, our dollar bills, is just a piece of paper, and we could vote to devalue it, but because it is a tangible, visible value, politically, it makes it impossible or almost impossible to do that.

Our seniors need to know that we are committed. And that is why Walter and I, and many others are supporting the idea of if someone has paid into Social Security their whole life, when they retire, it is not too much to give them a certificate that tells them what their benefit is going to be and that it is guaranteed, and it is guaranteed, and we need to make sure they know it.

The next thing we need to know is quit lying to working Americans. Every year they get a certificate in the mail that suggests to them they have a passbook savings account, that we have kept everything they have put in it, and it even says, of course, your benefits will be there for you, even though we know the Social Security actuaries tell us that it is not going to be there unless we change something.

We need to change that statement in a way that lets working Americans know that Social Security is a program that we are committed to, but changes are necessary to guarantee their benefits, and I think we can guarantee their benefits.

The first step is to reassure our current senior citizens that their benefits are safe. The second step is to tell working Americans that we need to make some changes to guarantee their benefits in the future. The third step is to begin to debate honest plans to save Social Security in the future.

I commend you, again, Mr. Chairman, for taking us in that direction, and I would ask this Subcommittee to seriously consider putting our contract with seniors in writing and changing the statement that we send every year to working Americans that is now misleading them, we need to tell them the truth.

Thank you.

[The prepared statement of Mr. DeMint follows:]

Statement of the Hon. Jim DeMint, a Representative in Congress from the State of South Carolina

Thank you, Mr. Chairman, for the opportunity to testify today. I commend you and the Subcommittee for your efforts to improve Social Security for today's retirees as well as for future generations.

The first issue I want to address is the need to tell seniors the truth about their benefits—that they are safe, secure, and guaranteed. However, this is not true for their children and grandchildren, which I will discuss later.

Mr. Chairman, 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. For many seniors, Social Security is all they have.

After years of being told their taxes were being saved for their retirement, many retirees are concerned that shrinking surpluses caused by a weakened economy and the attacks of September 11th will somehow harm their benefits. Of course, this is not true. Every penny of the benefits for today's retirees will be paid in full. The Social Security trust fund receives credit for surplus Social Security tax dollars regardless of whether those funds are spent on debt reduction or to fight the War on Terrorism.

Seniors are also concerned that reforms needed to strengthen Social Security for their children and grandchildren may, in some way, harm their benefits. This is also false. Everyone agrees that modernization must not change the benefits of today's retirees. The President has made this point clear time and time again.

Mr. Chairman, Social Security is a defining American promise and every member of this subcommittee knows this promise will be kept. But older Americans drawing Social Security today have a right to know this too. They have a right to know their benefits are secure so they can enjoy the sunset of their lives without fear or confusion. Mr. Chairman, I believe we must take steps now to reinforce our commitment to them.

That is why I introduced H.R. 3135, the Social Security Benefits Guarantee Act, which is similar to a bill my friend from North Carolina, Walter Jones, has introduced. This legislation would require the Secretary of the Treasury to issue to each Social Security recipient a personalized certificate that includes a written guarantee of a fixed monthly benefit plus an accurate annual cost-of-living increase. This written bond would provide today's seniors the truth about the safety of their benefits, giving them peace of mind when people try to scare them for political gain. And, by putting a retiree's entitlement in writing, future Congresses will be less inclined to break the sacred promise of Social Security.

Mr. Chairman, the intent of this legislation is not to change the way Social Security operates. Instead, its purpose is to reaffirm our commitment to today's seniors. The intent is not to change the way benefits are authorized. These certificates would only guarantee what is in current law, which is constrained by the accounting mechanism we call the Trust Fund. The fact that in 2038, the Trust Fund will not be authorized to pay full benefits is a problem that requires fundamental reform, not a certificate that restates the promise of current law.

Mr. Chairman, some people believe the money needed to send these guarantee certificates could be better spent. I disagree. According to the Congressional Budget Office, the cost would be only $1 million per year. Given that the Social Security Administration's annual administrative budget is $8 billion and given that the commissioner currently spends seventy times this amount sending statements to younger workers, it is certainly justified to use this small amount to reassure seniors of the safety of their retirement.

The second issue I want to address is the need to tell younger Americans the truth about their Social Security benefits—that they are not safe, not secure, and certainly not guaranteed.

Mr. Chairman, Social Security is in trouble for younger Americans. According to the last report of the Social Security trustees, the program will begin paying out more than it collects by 2016. Between 2016 and 2038, the program will require approximately $5 trillion in additional cash assistance from the general fund. After that, Social Security will become insolvent. Unless we solve this problem now, future generations will be stuck with unbearable tax increases followed by devastating benefit cuts. Mr. Chairman, younger Americans have a right to know this, and I believe we must take steps now to inform them of what the future holds for Social Security and their retirement.

That is why I introduced H.R. 634, the Straight Talk on Social Security Act, along with my Democratic colleague from Missouri, Karen McCarthy. This bipartisan legislation would require the Social Security Administration to improve the "Your Social Security Statement" sent to all non-retired workers over age twenty-five.

I am pleased with the recent efforts made by the Social Security Administration to boost the public's understanding of the program through these personal benefit statements. The Social Security Statement is the most significant vehicle we have to increase public understanding of Social Security. But, unfortunately, much of the information currently contained in it is both flawed and misleading. As a result, millions of Americans are being misinformed about how much retirement income they will actually have and about how much in taxes they will actually have to pay.

Specifically, the Statement fails to adequately inform people how the program's future financial problems will affect the payment of their benefits. While the current Statement hints that a problem may exist, it reassures readers that "of course" Social Security will "be there" when they retire.

Mr. Chairman, younger workers have a right to know that the future of Social Security is anything but secure. They have a right to know that starting in 2016, the program will begin to experience massive deficits, and that Congress will have to come up with the money to pay back that which has not been saved.

It is not enough to just inform workers that changes "may" be needed. They have a right to know how those changes will affect their retirement. That is why this legislation requires the Social Security Administration to inform workers that after 2038, the program will not be able to pay all of their promised benefits. For example, the Social Security actuaries predict benefits will drop by 27% in 2039 and continue to fall thereafter.

Mr. Chairman, the Social Security Statement also completely fails to address the changes that will be needed to convert the Social Security trust funds into real economic assets. While we may want to pretend that these funds will extend the life of Social Security, we all know they are only funds in an accounting sense and can only be fulfilled with higher taxes, lower spending, or more debt. That is why my bill would inform workers that the trust funds are not cost-free.

Finally, Mr. Chairman, the Social Security Statement fails to adequately explain Social Security's past and future performance in terms of what it will pay back to workers for the payroll taxes it collects. This relationship between benefits and contributions is known as rate of return.

While the Social Security Administration could not possibly provide each worker with their own individualized rate of return estimate, it can provide general estimates for typical workers born in different years. And that is exactly what my legislation would require.

According to a recent a Social Security Administration study, inflation-adjusted returns averaged more than 25 percent annually for Social Security's first retires in the 1940s, and are estimated to average roughly 4 percent for today's retirees, roughly 2 percent for baby boomers, and 1 percent for those who will be born 40 years from now. Since these estimates do not include the cost of repaying the trust fund, rates of return will actually be much lower.

Informing younger workers of this trend is absolutely crucial in helping working Americans plan for retirement, especially for low- and middle-income workers who will depend almost entirely on Social Security for their retirement income. For these workers, Social Security payroll taxes are so high that they crowd out their ability to personally save for retirement. Social Security is their only retirement plan, and they have a right to know that the program's performance is declining.

Mr. Chairman, people can disagree about the reforms needed to solve Social Security's long-term financial problems, but we should all agree that working Americans have a right to some simple, plain, straight talk on Social Security.

H.R. 3135, the Social Security Benefits Guarantee Act, is an effective means for telling today's retirees the truth about the security of their benefits, and H.R. 634, the Straight Talk on Social Security Act, is an effective means of telling tomorrow's retirees the truth about the problems facing the program. Americans have a right to know this information, and I urge you move both of these bills so they have it.

Chairman SHAW. Thank you, Mr. DeMint.

Three of the four, Mr. Etheridge, Mr. DeFazio, Mr. Nadler, and Mr. Rodriguez, both in a critical way, used the word "privatization." I would like a definition of that.

Mr. Nadler, will you give me a definition of privatization, as you use the term?

Mr. NADLER. Sure. What I mean by privatization and what I think is generally meant by privatization is any proposal that would direct any part of the 12.4 percent of Social Security away from Social Security or away from how it is currently used, away from the Social Security Trust Fund and into a system of private accounts.

I do not mean by privatization any proposal such as made by President Clinton and by various others since then to have the Federal government help people set up individual accounts over and above the 12.4 percent from some other source of funds.

Chairman SHAW. That is what mine does.

Mr. NADLER. If it is not from that 12.4 percent, and that 12.4 percent stays the way it is, then it is not what I would call privatization. It is a different system.

Chairman SHAW. Thank you, sir. Mr. Rodriguez?

Mr. RODRIGUEZ. My definition is any proposal which diverts funds from the existing Social Security Trust Fund. In addition, any proposal which puts in danger baby boomers and their ability to receive Social Security benefits. Also, we need to protect the kids of the baby boomers. I feel very strongly about preserving the trust fund. We need to understand that Social Security also applies to the disabled, as well as the blind, and other SSI recipients. It is really important for us to understand the initial intent of Social Security, to alleviate poverty among seniors, and to provide for the disable and other vulnerable segments of our work force.

If we are looking at private investments outside of Social Security, I can understand the importance of that. The bottom line is that one out of three Hispanics do not have a private pension form, we don't, and Latinas are hit even worse, they need Social Security.

Chairman SHAW. Would you object to a program that we would develop alongside of Social Security that, if we didn't touch the trust fund at all, and that we set up individual retirement accounts for American workers and put 3 percent for low-wage people and then 2 percent after you got to a higher wage person, if we didn't touch the trust fund——

Mr. RODRIGUEZ. If you didn't touch the trust fund, I would be willing to look at that.

Chairman SHAW. And take it out of general fund. Thank you, sir.

Mr. NADLER. Mr. Shaw, could I add one thing?

Chairman SHAW. Yes.

Mr. NADLER. I would simply say that——

Chairman SHAW. Are you nervous that you agreed with me?

Mr. NADLER. No, no. I am not clear on what your proposal is. I just want to say, I mean, if it is similar to the President's proposal of several years ago, President Clinton's proposal, I agreed with that proposal, but——

Chairman SHAW. I don't recall him having a proposal.

Mr. NADLER. Oh, he did, and in fact the—but that is not the point. I don't want to debate President Clinton at this point.

Chairman SHAW. But my plan also incorporates helping out women, taking some of the things that you——

Mr. NADLER. Well, that sounds fine. I would simply point out that if you don't——

Chairman SHAW. And Mr. Smith agreed with you.

Mr. NADLER. If you are going to—yes, he did, and I agreed with him. He had some good ideas.

If you are going to fund some sort of private accounts, and you are not going to take it from Social Security, that is, from that 12.4 percent, you have got to take it from somewhere else, and if you are going to make it sizable, that is going to be a huge amount of money, and if you want to take it out of the Federal budget, well, that is fine if the money is in the Federal budget, which the current situation does not seem to allow, given those tax cuts we did last year. But I am not, in principle, in fact, in principle I am in favor of setting up some sort of private thing over and above Social Security, as long as you don't touch the Social Security Trust Fund.

Chairman SHAW. Take a look at my bill. Maybe you would like to add your name to it.

Now, Charlie, according to these two Democrats down here, they are defining your program as privatization, but I clearly heard either you or Mr. Kolbe or both of you say this was not privatization.

Mr. STENHOLM. Well, I don't look at it as privatization. If you are going to put the definition on ours as privatization, then you will——

Chairman SHAW. I didn't, they did.

Mr. STENHOLM. No, you are asking, I am talking to my two colleagues, Mr. Chairman. That then you would also say that the Federal retirement system that all of us are in and that our Federal employees are in are a privatized system. You can stretch it to that far, but before I get into a debate or discussion about our plan, I would like for folks to read it. It has been amazing to me to listen to the criticism of Jim's and my plan of obviously people who have never read it, but are talking in platitudes about, as we have heard again today.

I mean, you compare it to the President's plan. The President has not got a plan specifically as yet, but he has got a concept that I happen to agree very strongly with, and I have for 6 years. And I am perfectly willing to debate my colleagues regarding whether it is good, bad, or indifferent. That is why we came today is to, hopefully, this hearing begins a serious discussion of solutions. With all due respect to those that believe the first step is a certificate, I mean, that is not the worth the paper it is printed on, and it is going to cost anywhere from $10 to $40 million to send it out. You can already get that from the Social Security system. Any time you wish to write in and find out what your benefits are, you write, they tell you these are your guaranteed benefits, and it is just as good as any certificate that you get planted after this.

So we are talking now in political terms.

Mr. DEMINT. Could I respond, Mr. Chairman?

Chairman SHAW. Sure. Go ahead, Mr. DeMint.

Mr. DEMINT. Just the real cost that CBO gives us, it is $8 million the first year because it goes to all of those who are currently retired. It is $1 million every year thereafter to give a certificate of guarantee to every new retiree. Now we spend $70 million a year to give a statement to working Americans to tell them something is there that is not. I think we could spend a million dollars a year to tell senior citizens the truth.

Chairman SHAW. Well, it could go out with a Social Security check. You could get your Congressman to do that.

Mr. STENHOLM. Could I respond again?

Chairman SHAW. Please.

Mr. STENHOLM. To me, $8 million is still a lot of money. Now part of the debate surrounding this has to do with the budget, and surpluses, and the fact that we now have got deficits as far as the eye can see. And the economic game plan that we are under right now, as proposed by the President, we will be in the Social Security Trust Fund for the next 10 years.

I heard my colleague, Mr. Hayworth, this morning go back to the eighties and the fact we didn't cut spending. If you are going to talk about cutting spending, then you have got to quit saying $8 million is not a lot of money and compare it to $70 million that we are wasting. Let us cut out the $70 million. For Heaven's sakes, Jim, let us not add another $8 million. The folks I represent, $8 million, $1 million, $100,000 is still a lot of money, and yet we come in here and say, "Oh, pooh, $8 million and $1 million a year is nothing," and we call ourselves conservatives.

Chairman SHAW. I will tell you what we are going to do. I am not going to get this into a debate between the two of us. We have got two more Members that have shown up. We will have the whole Congress in here pretty soon.

[Laughter.]

Chairman SHAW. Will the two other Members come to the table that plan to be heard. Maybe they can just go ahead and testify real quick. If you can testify just in a couple of minutes, I will hear you before the vote.

Anybody that can sum up in 2 minutes is invited to the table. Jan, come on up. You can pull right up to the end of the table there. Two minutes.

Ms. SCHAKOWSKY. I will do my best, Mr. Chairman.

Chairman SHAW. Thank you. I appreciate your being here. By the way, I want to say, Charlie, I admire you. You are one of the pioneers on this thing, and I really appreciate you. You broke a lot of ground, and we will take care of chase. Do not worry.

Mr. STENHOLM. I appreciate that.

Chairman SHAW. We are slow, but we will get there.

Mr. STENHOLM. I appreciate the opportunity. I am sorry I caused you to go into a debate.

Chairman SHAW. Well, you are good at that, Charlie, and that is fine. You ought to do what you do best, thank you. Yes, ma'am?

STATEMENT OF THE HON. JANICE D. SCHAKOWSKY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Ms. SCHAKOWSKY. Thank you so much, Mr. Chairman. I am Congresswoman Jan Schakowsky from Illinois.

I appreciate the opportunity to be able to talk to you about the issue of Social Security benefit guarantee certificates and the future of Social Security.

I wanted you to know, and the Subcommittee to know, that from 1985 to 1990 I served as Executive Director of the Illinois State Council of Senior Citizens. And given that experience of being the Executive Director of a senior citizen organization, I can assure you that senior citizens will clearly understand these certificates for what they really are, which I believe is an attempt to provide political cover for those who want to be seen as fans of Social Security while, at the same time, are promoting privatization proposals that will undermine it. Senior citizens, I believe, will be skeptical of these certificates for several very good reasons.

First of all, there is the budget record development. Despite all of the rhetoric about putting Social Security revenue into a lockbox, the lock to that box has been picked by the Republican budgets. It is true that the lockbox resolution that passed the House provided certain exceptions, such as war or recession, but it is not true that one of the exceptions to the lockbox was providing tax breaks to the wealthy.

The Congressional Budget Office has indicated the single largest factor in the disappearing budget surplus as last year's tax cut, and the Bush budget proposal will take $553 billion of the Medicaid surplus and $1.5 trillion of the Social Security surplus over the next decade. I doubt that a certificate will assure senior citizens that Social Security solvency is a priority, given those figures.

And second, there are those unfortunate statements by Treasury Secretary O'Neill. Last May, in an interview in the Financial Times, Secretary O'Neill stated, "Able-bodied adults should save enough on a regular basis so that they can provide for their own retirement, and for that matter health and medical needs."

And in July, Secretary O'Neill stated that, "The Social Security Trust Fund does not consist of real economic assets."

Well, if the Treasury Secretary believes that the assets in the trust fund are just worthless paper, why should Social Security beneficiaries have any faith in a paper certificate?

The third reason that they will be skeptical are the disturbing references to Social Security found in the economic report of the President.

Chairman SHAW. We want to be sure to get over here to Jim, too. I understand, Mr. Forbes, you want to put your statement in the record?

Mr. FORBES. Mr. Chairman, I will be glad just to do that in the interest of time.

Chairman SHAW. Okay. Well, you just go ahead and submit yours for the record.

[The statement of Mr. Forbes follows:]

Statement of the Hon. J. Randy Forbes, a Representative in Congress from the State of Virginia

Thank you Chairman Shaw and Ranking Member Matsui for having me before your distinguished Committee this morning. I want to commend you for holding this important hearing and for having the foresight and conviction to address this important issue. I believe that hearings such as this one are more than just a forum for witnesses to express their views. Today's hearing is in fact the practice and strengthening of our democracy. As such, I am humbled to have the honor and privilege of speaking to you on behalf of the people of the Fourth District of Virginia.

I can think of no other issue that is of greater concern to the seniors in my district than the stability and future of Social Security. To my constituents, and myself, Social Security is more than just another government program that administers benefits to those who qualify. Social Security is a sacred trust between the Federal government and its citizens—a trust that we must not allow to be broken.

Today 44 million Americans—one in six—depend on Social Security retirement, disability, and survivor benefits. Thanks largely to Social Security, seniors today are the least likely group to be poor. For years now, however, Congress and the public have known that Social Security would soon be facing serious financial challenges due to shifting demographics. Due to the aging of the baby boom generation, the number of retiring Americans receiving benefits is beginning to overwhelm the number of working Americans paying into the Social Security system. In addition, important medical advances and healthy behavioral changes, are allowing Americans to live longer. The result of these factors is that beginning in 2016, Social Security payments will exceed worker contributions into the trust fund.

This is a scary prospect for the millions of Americans who receive Social Security benefits. Many of these individuals depend upon their monthly Social Security checks to survive. As we fight our global war on terrorism, we must not lose sight of the fact that terror can come in many forms. It is every bit as frightening to an elderly man or woman when their Social Security check is late—or doesn't arrive at all. Too many seniors are living from one check to the next while balancing food against medicine. As their Representatives in Congress, we should at least provide them with the security of the promise of Social Security.

It is also a scary prospect, Mr. Chairman, for the millions of workers who are currently paying into the system. They have been paying into the Social Security trust funds because they have to, not because they believe in the promise of Social Security. In fact, numerous studies have shown that more young Americans believe in UFOs than in their future Social Security checks. As Members of Congress, it is incumbent upon us to restore younger worker's faith in Social Security and us.

In the coming weeks, Congress may consider legislation that will lead to changes in Social Security, strengthening it and improving it for generations to come. As we consider changes to Social Security, Congress must address the concerns of our Nation's seniors by taking a Hippocratic oath to protect Social Security. We must all pledge to "first do no harm." Mr. Chairman, we must maintain our determination to keep the promise of Social Security. We should not raise Social Security taxes and we should not cut benefits. We must use the innovative spirit that is America's hallmark to meet this challenge and find a way to strengthen and improve Social Security.

It is a surprise to many when they learn that Social Security recipients have no legal right to their benefits. In 1960, the Supreme Court held in *Flemming v. Nestor* that Congress could change or discontinue Social Security benefits at any time. In other words, Americans have no legal property right to their Social Security benefits. Our seniors deserve more than just Congress' good word that Social Security will be there for them.

By establishing a property right for retirees, Congress would ensure that the benefits of those who depend on Social Security would be permanently protected under the law. Our seniors deserve no less.

I also want to commend the President for addressing this issue in a straightforward manner. While the events of September 11th have required us to focus on winning the war on terrorism, I know that saving Social Security is high on the President's agenda. I believe that next to winning the war on terrorism, reforming and protecting Social Security will be one of the great legacies of this administration and this congress.

Recently I was pleased to hear the President lay out his principles for reforming Social Security. The President made it clear that reforming Social Security must not change existing benefits for current retirees or near-retirees, and it must preserve the disability and survivors' components. The promises made to current retirees must be kept. Every senior receiving, or about to receive, Social Security benefits should rest assured that their hard earned benefits will be there for them.

We must also seek and gain the consent of the governed. Any proposal to reform Social Security must be carefully scrutinized and presented in daylight for everyone to see and review. We must also continually seek the thoughts and ideas of those that rely on Social Security. During my brief time in Congress, I have made it a priority to seek the advice and counsel of the seniors in my district by creating a Social Security Advisory Board. I have also heard the importance and real life impact of Social Security through numerous town hall meetings that I have held throughout the Fourth Congressional District.

In the end, to protect Social Security we must come together as a Congress. We must resist the temptation to use this issue for political gain. The future of Social Security is too important for one party to use as political leverage over the other.

Again, I want to thank the Committee again for the opportunity to appear before you today, and I commend you again for addressing this vitally important issue.

Chairman SHAW. Would you go ahead and submit your whole statement to the record?

Ms. SCHAKOWSKY. I will. I actually am trying to pare it down. Well, let me try and finish then in another minute, okay?

Chairman SHAW. Quickly, if you would.

Ms. SCHAKOWSKY. I am doing it as fast as I can——

Chairman SHAW. You committed to 2 minutes.

Ms. SCHAKOWSKY. I will. Okay.

Well, then let me just say I think one of the main reasons that they will be skeptical is that the issue is that the President's Commission on Social Security has come up unanimously with ideas about privatization and was full of people who were handpicked only to support the idea of privatization which, in my view, would drain money from the trust fund, would shorten the life of the trust fund, would jeopardize benefits, would risk disability and survivor benefits, and I think that cloth certificates are not going to address the problem.

Let me just finish with this. I think if we are going to send out certificates, there ought to be some truth in advertising. It should say that the Congressional Research Service has concluded that these certificates provide no more protection than already exists under the law, it is not usable in a court of law, and the only real promise is that the Social Security Administration will follow the law until it decides to change the law.

And so it seems to me that we ought to be honest, even more honest than when we sent back the $300 and $600 rebates, no one knew in that letter that it was really an advance on their return this coming tax year, and I think we have to be honest with people and that, in fact, we shouldn't waste tax dollars. This is a ridiculous proposal.

Chairman SHAW. I am going to stop you right there.

[The prepared statement of Ms. Schakowsky follows:]

Statement of the Hon. Janice D. Schakowsky, a Representative in Congress from the State of Illinois

Mr. Chairman, I want to thank you for the opportunity to testify before you today on the issue of Social Security benefit "guarantee certificates" and the future of Social Security.

I believe that our goal should be to protect and improve the financial security of retirees, survivors, dependents, and disabled workers. For 67 years, Social Security has been the bedrock of that security. Nearly 46 million people—living in 1 out of every 4 households across this country—today receive monthly benefits from Social Security. Social Security provides critical insurance protections against the future loss of income due to retirement, death or disability for 96 percent of all workers, their spouses and their children. Social Security provides over half of the total income for the average elderly household. For one-third of women over age 65, Social Security represents 90 percent of their total income. Without this program, half of older women would be living in poverty.

Mr. Chairman, it is our responsibility to ensure that the Social Security guarantee is here today, tomorrow and for generations to come.

It is our job as elected officials to enact the policies needed to maintain that guarantee and to reject the policies that undermine Social Security. It is not our job to spend taxpayer dollars to send out paper certificates designed to provide a false sense of security to American seniors and their families. We should not be engaged in a public relations campaign but in a serious policy discussion that lets us debate how best to continue the Social Security commitment to guaranteed, life-long and inflation-proof benefits.

From 1985 to 1990, I served as executive director for the Illinois Council of Senior Citizens. Given that experience, I can assure you that senior citizens will clearly understand these certificates for what they really are—an attempt to provide political cover for those who want to be seen as fans of Social Security while at the same time they are promoting privatization proposals that undermine it. They will wonder why we feel the need to spend $10 million to say that we will follow the law, unless we decide to change the law. And they will ask why we have $10 million to send out meaningless certificates instead of using that money to increase services such as meals on wheels, senior housing, or nursing home quality enforcement.

They will also understand why the Republican leadership may feel the need to provide their "bona fides" when it comes to Social Security.

First, there is the budget record. Despite all the rhetoric about putting Social Security revenues in a lockbox, the lock to that box has been picked by the Republican budgets. It is true that the lockbox resolution passed in the House provided certain exceptions, such as war or recession. But it is not true that one of those exceptions was providing tax breaks to the wealthy. The Congressional Budget Office has indicated that the single largest factor in the disappearing budget surplus is last year's tax cut. As you know, the Congressional Budget Office has estimated that, even without new taxes or spending, we will take $900 billion from the Trust Fund over the next nine years. Now, President Bush is proposing new tax cuts of $675 billion over 10 years and $343 billion to make last year's tax cuts permanent, money that will come out of Social Security and Medicare. The Bush budget proposes to take $553 billion of the Medicare surplus and $1.5 trillion of the Social Security surplus over the next decade. I doubt that a certificate will assure senior citizens that Social Security solvency is a priority given those figures.

Second, there are those unfortunate statements by Treasury Secretary O'Neill. Last May, in an interview with the *Financial Times,* Secretary O'Neill stated that "Able-bodied adults should save enough on a regular basis so that they can provide for their own retirement and, for that matter, health and medical needs." In July, Secretary O'Neill stated that "the Social Security trust fund does not consist of real economic assets." Again, it is hard to argue that those are ringing endorsements of Social Security. If the Treasury Secretary believes that the assets in the Trust Fund are just worthless paper, why should Social Security beneficiaries have any faith in a certificate?

Third, despite the outcry over Secretary O'Neill's comments last year, those pesky statements are restated in this year's Economic Report of the President. Once again, we are told that "Americans must take even greater responsibility for their own retirement security by increasing their personal saving." Social Security is not lauded as the most successful anti-poverty program in our history and one that spends less than 1 percent in administrative costs to do so. It is described as a "moral hazard: once a person is insured against running out of money in retirement, he or she has an incentive to retire earlier than in the absence of insurance," thereby raising the cost of the program. Or this statement: "The importance of Social Security benefits in the retirement portfolios of most American households does not necessarily mean, however, that most U.S. households would be poorly prepared for retirement without it." Not an argument that one might want to use with those older women who rely on Social Security for 90 percent of their income or those Enron retirees who are now totally dependent on Social Security.

Fourth and most important, there is the President's Commission on Social Security. All of those appointed to the Commission last May were supporters of privatization, which may explain why none of those appointed to the Commission last May represented recognized senior, disability, women's, or minority organizations. The three plans put forth by the Commission last December all include variations on the privatization theme. All of the plans would jeopardize the Social Security guarantee in one way or another:

- Privatization would drain between $1 trillion and $1.5 trillion from the Trust Fund over the next decade alone.
- Privatization would shorten the life of the Trust Fund. One plan would increase the long-term Social Security deficit by 25 percent. Another tries to deal with this deficit by transferring $6 trillion from the U.S. Treasury between 2021 and 2054 to make up the deficit. Taking general revenues might help Social Security but it would also eliminate resources necessary for Medicare, Medicaid, the Older Americans Act, job training, education and other essential programs.
- Privatization would jeopardize benefits to current and future beneficiaries. One of the Commission's proposals would cut benefits for future retirees by calculating initial benefits on the basis of growth in CPI rather than wages, which would greatly reduce standard of living. Future retirees could face cuts of 40% or more. Those benefit cuts are not voluntary. They would affect all beneficiaries, not just those who opted for individual accounts.
- Privatization would force workers to work longer in order to maintain benefits.
- Privatization would reduce disability and survivor benefits.
- Privatization proposals also raise a number of serious practical problems that have to be addressed. The Congressional Budget Office has identified some of those questions (*Social Security: A Primer,* September 2001), including whether people would be required to convert their private account assets into an annuity and whether they would have to have joint annuities to protect dependents; whether and how beneficiaries would be protected against downturns in the stock market or outliving their assets; how the system would handle benefits for workers' families, for survivors of deceased workers, and for disabled workers; and whether there would be subsidies for people with low income and intermittent work histories, as Social Security does now?

Sending out glossy, slick certificates wouldn't answer those questions. Sending out a certificate won't provide a guarantee if that guarantee doesn't exist in law itself. Sending out a certificate won't put the money back in the Trust Fund that has been used to provide tax cuts for millionaires. But, if certificates are going to be provided, at least they should follow basic truth in advertising standards.

The certificate should state clearly that, as the Congressional Research Service has concluded, it provides no more protection than already exists under law. It's not an ironclad guarantee. Senior citizens, survivors and disabled workers can't use it to obtain their benefits in a court of law. The only real promise is that the Social Security Administration will follow the law until and unless Congress changes that law. Certificates don't guarantee that Congress won't act to cut benefits for current or future beneficiaries.

Any certificate should state clearly that Congress may pass a privatization initiative that will reduce Social Security benefits by the amounts received from individual accounts. Many of my constituents are just now finding out that their $300 tax rebate last year is coming from the tax refunds they thought they were due this year. We should be very clear and very precise so that there are not any similar surprises in the future. We should also make sure that beneficiaries understand that Congress reserves the right to change benefit calculations that would cause workers to work longer in order to stay in the same place.

And, perhaps, instead of just sending certificates to current beneficiaries and beneficiaries as they enroll, we should also send a warning to future beneficiaries that we are not making them any promises. They might be interested to know that we are not guaranteeing their benefits and that we are making no commitment that they will not face substantial reductions like those envisioned in the Social Security Commission proposals. We should warn them that Social Security may not be there for them when they need it.

Or, instead of wasting taxpayer dollars on an election year gimmick, we could take two steps to prove our commitment to Social Security.

First, we can vote to reject privatization. Groups like the Urban League, the National Women's Law Center, the National Committee to Preserve Medicare and Social Security, the United Cerebral Palsy Association, the Alliance for Retired Americans and many, many others have raised serious objections to privatization proposals.

Yesterday, I was visited by members of the National Silver Haired Congress. The Congress is a non-partisan organization, dedicated to representing "the best interests of all elder Americans." Members introduce, debate and vote on resolutions and then present those resolutions to the President and Congress. Helen Heyrman, the "Senior Senator" from Illinois, introduced a resolution to "retain Social Security as a Guaranteed Benefit," a resolution that passed overwhelmingly as a top priority of this year's Congress. The text of the resolution is attached to my testimony.

I hope that we will follow the lead of the National Silver Haired Congress by rejecting privatization. At least, we should have a full and fair debate where their concerns are addressed.

Second, we can vote to reject tax cuts for the wealthy that jeopardize Social Security. Peter Orzag from the Brooking Institution has said that the tax cuts passed last summer but not yet implemented will exceed the entire Social Security deficit over the next 75 years. I introduced the First Things First Act, H.R. 2999. My bill would delay changes in the top marginal tax rates and elimination of the estate tax (while lifting the exemption for family-owned businesses to $4 million) until we've protected Social Security and Medicare and met other critical needs, such as providing a comprehensive Medicare prescription drug benefit. Certainly, we should not pass the tax provisions in the President's budget that would drain $1.5 trillion from the Trust Fund.

Mr. Chairman, I want to thank you again for giving me the opportunity to be here today. I hope that we can put these guarantee certificate proposals to rest and instead work together to keep the security in Social Security and improve the financial future for retirees, disabled workers, survivors, and dependents.

Chairman SHAW. Jim?

STATEMENT OF THE HON. JAMES R. LANGEVIN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF RHODE ISLAND

Mr. LANGEVIN. Thank you, Mr. Chairman and Ranking Member Matsui, for the opportunity to speak to you today about this important and complex issue.

I am deeply concerned about the impact privatization could have on the more than 6 million people who rely on Social Security Disability Insurance for survival today and the millions more who will count on this insurance in the future. The fate of the disability program should be of paramount concern in addressing the problems facing Social Security, yet it receives far too little attention.

Ranking Member Matsui and many other esteemed Members of this Subcommittee have done an outstanding job spot-lighting these issues, and I am grateful for the opportunity to add to the dialog today.

Disability insurance is essential to the economic security of our most vulnerable citizens. Throughout the course of their lives, one-fifth of adult women and one-fourth of adult men will receive disability benefits. Therefore, we must be cognizant of the impact of any privatization proposals on this critical program.

Now no one advocates the privatizing of the Disability Insurance program. That would be an extremely dangerous proposition. Those who collect disability insurance are largely unable to work, and, therefore, unable to contribute to private accounts. Even those who can work will probably not be able to build a large enough account and meet their needs. So, if no one is suggesting that the government privatize disability insurance, why all the concern?

Well, there are a number of reasons to worry about the impact that privatizing old age and survivors insurance would have the Disability Insurance program.

First, it will be extremely difficult to retain the existing Disability Insurance program if the Old-Age and Survivors Insurance (OASI) program is fundamentally changed. The two programs share administrative costs, personnel and processes, and since OASI is a much larger program than Disability Insurance, serving 85 percent of all Social Security beneficiaries, the administrative costs, once shared by both programs, would now be solely generated and absorbed by the Social Security Disability Insurance.

Furthermore, because the formulas used to determine disability and retirement benefits are intertwined and most privatization proposals call for changing the formula to reduce benefits, disability program beneficiaries could face sharp benefit reductions that would not be compensated by even the most robust growth in the standard & poor's 500, S&P 500.

Chairman SHAW. Jim, may I interrupt? How long does it take you to get to the Floor from here?

Mr. LANGEVIN. About 5 minutes.

Chairman SHAW. Do you want to submit the rest of your statement for the record?

Mr. LANGEVIN. I think I am almost done, if I can have just maybe another 50 seconds.

Chairman SHAW. Fine, you go right ahead. I just didn't want you to miss the vote.

Mr. LANGEVIN. Thank you, Chairman.

Chairman SHAW. In fact, I don't want any of us to miss vote.

Mr. LANGEVIN. Finally, most privatization proposals would raise the Old Age Insurance retirement age, which would substantially increase the number of people collecting disability insurance and make the program significantly expensive.

Although I commend Chairman Shaw's diligent efforts to address this issue confronting Social Security, I am concerned about the impact his proposal will have on those who rely on disability insurance.

I am also wary of Representative Armey's proposal to send guarantee certificates to selected current and future beneficiaries. Such proposals would divert critical funds away from benefits and further jeopardize the solvency of the Disability Insurance program. In fact, Representative Armey's bill would drain $10 million from the Federal Treasury, funds that could be used to expedite $14,000 disability insurance claims instead.

I came to Congress, in part, to fight for policies that help people with disabilities or debilitating illnesses enjoy longer, healthier, and more productive lives. The Social Security Disability program is essential to that effort because it provides a guarantee from the Federal government that all Americans will receive a minimum income if they become physically unable to work.

Before we continue down a dangerous path toward privatization, we must remember that Social Security was intended to provide security, not wealth. Disabled Americans who face a myriad of challenges every day of their lives need that security, and I, with the help of dedicated people like Representative Matsui, will fight in Congress to preserve it.

Mr. Chairman, I thank you, and, Ranking Member, I thank you for the time to speak.

[The prepared statement of Mr. Langevin follows:]

Statement of the Hon. James R. Langevin, a Representative in Congress from the State of Rhode Island

I want to begin by thanking Chairman Shaw and Ranking Member Matsui for the opportunity to speak with you about this important and complex issue today. I am deeply concerned about the impact privatization could have on the more than 6 million people who rely on Social Security Disability Insurance (SSDI) for survival today and the millions more who will count on this insurance in the future. The fate of the disability program should be of paramount concern in addressing the problems facing Social Security, yet it receives far too little attention. Ranking Member Matsui and many of the other esteemed Members of this subcommittee have done an outstanding job of spotlighting these issues, and I am grateful for the opportunity to add to the dialogue today.

Disability Insurance is essential to the economic security of our most vulnerable citizens. Throughout the course of their lives, one-fifth of adult women and one-fourth of adult men will receive disability benefits. Therefore, we must be cognizant of the impact of any privatization proposal on this critical program.

No one advocates privatizing the Disability Insurance program. That would be an extremely dangerous proposition. Those who collect Disability Insurance are largely unable to work and therefore unable to contribute to private accounts. Even those who can work would probably not be able to build a large enough account to meet their needs. So, if no one is suggesting that the government privatize Disability Insurance, why all the concern?

There are a number of reasons to worry about the impact that privatizing Old Age and Survivors Insurance would have on the Disability Insurance program. First, it will be extremely difficult to retain the existing Disability Insurance program if the Old Age and Survivors program is fundamentally changed. The two programs share administrative costs, personnel, and processes. And since OASI is a much larger program than Disability Insurance, serving 85% of all Social Security beneficiaries, the administrative costs once shared by both programs would now be solely generated and absorbed by SSDI.

Furthermore, because the formulas used to determine disability and retirement benefits are intertwined, and most privatization proposals call for changing the formula to reduce benefits, disability program beneficiaries could face sharp benefit reductions that would not be compensated by even the most robust growth in the S&P 500. Finally, most privatization proposals would raise the Old Age Insurance retirement age, which would substantially increase the number of people collecting Disability Insurance and make the program significantly more expensive.

So although I commend Chairman Shaw's diligent efforts to address the issues confronting Social Security, I am concerned about the impact his proposal will have on those who rely on Disability Insurance. I am also wary of Representative Armey's proposal to send guarantee certificates to selected current and future beneficiaries. Such proposals would divert critical funds away from benefits and further jeopardize the solvency of the Disability Insurance program. In fact, Representative Armey's bill would drain $10 million from the federal treasury, funds that could be used to expedite 14,000 disability insurance claims instead.

I came to Congress in part to fight for policies that help people with disabilities or debilitating illness enjoy longer, healthier, and more productive lives. The Social Security Disability program is essential to that effort because it provides a guarantee from the federal government that all Americans will receive a minimum income if they become physically unable to work. Before we continue down a dangerous path toward privatization, we must remember that Social Security was intended to provide security, not wealth. Disabled Americans, who face myriad challenges every day of their lives, need that security, and I, with the help of dedicated people like Representative Matsui, will fight in Congress to preserve it.

Chairman SHAW. Jim, thank you for your testimony.

I thank all of the witnesses for their testimony. I want to congratulate the witnesses that we had today that did have plans, and I want to make a note that Ms. Clayton is not here, but her statement will be submitted for the record.

[The statement of Ms. Clayton follows:]

Statement of the Hon. Eva M. Clayton, a Representative in Congress from the State of North Carolina

Good morning Chairman Shaw. I appreciate the invitation to address this Subcommittee on Social Security. I'm very concerned about Social Security. How do we strengthen Social Security and provide guarantees for our future generations?

Social Security has been one of the country's most successful social programs. It is largely responsible for the dramatic reduction in poverty among seniors, 50 % of the population aged 65 and over would live in poverty if it were not for Social Security. Social Security along lifted over 11 million seniors out of poverty in 1997, reducing the elderly poverty rate from 48% to 12 %. For 1 in 2 African American and Hispanic seniors, Social Security benefits provide 90% or more of their income. As of December 2001, 30% of all Social Security beneficiaries were receiving benefits because they or their family Member were severely disabled or because a family Member passed away.

We must all remember that in 1935 President Roosevelt established this program to help all workers prepare for retirement, with an emphasis on helping retired workers who had low incomes. The inception of this program came as a result of the crash of the markets that led us to the Depression of the thirties.

Strategies for saving Social Security for the future generations are among the most important issues facing us today. We want to make sure that the future of Social Security is secure for our children and grandchildren, but we also want to protect the financial security and promised benefits of retirees.

According to the Social Security Administration, once the baby-boom generation retires, the amount of money that the government will spend on Social Security will increase by more than 50% over the three decades. That is why some of us argued that it was very important to keep the "Lock Box on Social Security", save the budget surplus and pay down the Federal debt.

Some of my colleagues and the President are suggesting that we privatize Social Security as the way of providing for future generations. I'm more than a little nervous about this approach. The Congressional Budget Office suggests that in setting up a private accounts system, the following issues must be addressed: cost of administering private accounts, protection against the down turn in the markets, benefits for deceased workers' families and disabled workers and the needs of the low income. Additionally, how would the system be regulated and investors informed?

The complexity of privatizing the Social Security system is a difficult task and will have a significant impact on workers' economic security. According to the Employee Benefit Research Institute, adding individual retirement accounts to Social Security could be one of the largest undertakings in the history of the of the U.S. financial market, and no system to date has the capacity to administer such a system.

The President's Social Security Commission recommended cutting disability benefits to help defray the cost of private accounts, and bar access to the accounts prior to retirement. This would be a double blow to the disabled workers.

Between March 2000 and April 2001, the S&P 500 fell by 424 points or 28%. If Social Security had been privatized, a worker who had his or her individual account invested in the S&P 500 and who retired in April 2001 would have 28% less to live on the rest of his or her life. Perhaps we should ask the workers from Enron about their 401K accounts.

As policy makers, we must have the answers to these questions and guarantees that the risk of privatization will not cause major harm to our Social Security System.

I agree that we must come up with ways of reforming the Social Security system.

Perhaps, we should be looking at increasing the limits on individual retirement accounts, encouraging and teaching our youth and families the value of saving, investing and financial planning for retirement. Perhaps, another approach is to look at other ways of enhancing government securities and bond programs to pay better dividends. As you may recall, it was not too long ago that we not only encouraged youth to save and invest through buying savings bonds at school and post offices, and passbook accounts for vacations and holidays. We must look at some of the initiatives that organizations like the American Saving Association, Jump Start Program, Children's Banks and others are attempting by working with children, parents and schools. These organizations are developing educational programs that teach the basics, understanding money management, and encourages saving and investing with its impact on individuals' future economic security.

I am afraid that privatization is not the right solution, it is risky, and limits guaranteed protection for our future generations.

It is important for Congress to remember that while Social Security was not designed as a retirement program, however, many Americans have paid into the system in good faith and feel justified in relying on these benefits to survive during their retirement.

Chairman SHAW. If there are no other comments, this hearing is adjourned.

[Whereupon, at 2:17 p.m., the hearing was adjourned.]

[Submissions for the record follow:]

Statement of the Hon. John E. Baldacci, a Representative in Congress from the State of Maine

I am pleased that the committee has convened these hearings to discuss the important topics of benefit guarantee certificates, benefit improvements for women, and changes to the Social Security Statement and Trustees Report. It is good to see serious attention paid to the future of the Social Security program, which is the foundation of America's retirement security and a crucial source of support for disabled Americans.

Let me say that I deeply support the idea of strengthening Social Security for women. I also agree that Americans should know the facts about the Social Security system, so that as a society we can have an informed debate about the best way to provide for retirees and the disabled. I appreciate this committee's leadership in bringing these topics onto the agenda.

However, there are many troubling aspects to the specific proposals discussed so far in these hearings. Some of the benefit adjustments meant to aid women are reasonable and involve relatively low costs on the system. Others however, impose high costs that further imperil Social Security solvency for a relatively narrow benefit. At a time when we are trying to preserve Social Security for future generations, any proposals with such significant revenue implications must be considered in the context of an overall plan to reform the program, or they will only make our challenges even greater.

I also believe that the proposal to issue benefit guarantee certificates is misguided. The nonpartisan Congressional Research Service has found that these so-called "guarantees" would not confer any additional rights beyond those already contained in current law. Certificates would only serve to give Americans a false impression. The real question is: if the President and this Congress are truly serious about safeguarding Social Security, and have no intention of taking away benefits, why would we need to spend $10 million of taxpayer money to announce something that will not happen anyway?

Unfortunately, the truth is that the specter of gutting the system and cutting benefits is all too real. I have been seriously troubled by the testimony that has occurred during these hearings in support of the President's Commission on Social Security's three privatization schemes. Several witnesses have used this forum to promote private accounts as the long-term solution to Social Security solvency. The fact is that the leading plan proposed by the President's commission would drain $1.5 trillion from the Trust Funds in just the next 10 years. This is no formula for future solvency.

Even worse, the commission's plans propose cutting benefits for future retirees between 30 and 46 percent, reducing disability and survivor benefits, raising the retirement age, and drawing on general revenues. All of this for an approach that would, by definition, create as many losers as winners in the private investment market. This is a terrible deal both for retirees and the disabled. In fact, this approach would hurt the very group that we are supposed to be trying to help in these hearings: women. Privatization would remove the guaranteed, lifetime, progressive benefits that are the lifeblood of retirement for women. Anyone who is serious about protecting women's interests in retirement would oppose the commission's plans.

In closing, I believe that the committee is talking about the right subjects. We need to have a serious discussion about the future of Social Security, and that discussion must begin with a solemn agreement not to cut benefits for retirees. We should also be talking about how to enhance this program for women, and how to make it more fair and effective for everybody. I hope that we can continue to have this discussion throughout the remainder of this session, and that we can find ways to strengthen Social Security for all Americans.

Statement of the Hon. Kenneth E. Bentsen, Jr., a Representative in Congress from the State of Texas

Mr. Chairman and Members of the Committee:

I would like to thank Chairman Shaw and Ranking Member Matsui for holding this hearing to address Social Security, an issue of great significance to our nation. With the impending retirement of the Baby Boom generation, projected increases in life expectancy and the expected depletion of the Social Security trust fund by 2038, it has become critically important to reform Social Security. As you look at ways of extending the programs solvency and making it fairer, I strongly urge you to address the harsh effects of the Social Security offsets. More specifically, the Congress must take action to rectify the Government Pension Offset (GPO) and Windfall Elimination Provision (WEP), both of which have a substantial impact on the backbone of America, its public servants.

Daily, I receive letters from my constituents in which they express their outraged at how these provisions have unfairly stripped them of their benefits. These offsets affect nearly 900,000 workers nationwide, of which as many as 80,000 are Texas residents. They are our teachers, school cafeteria workers, police officers and civil servants. Recognizing that the imposition of GPO and WEP can make the difference between self-sufficiency and poverty, I have cosponsored bipartisan legislation to reform the offsets. If enacted H.R. 664, which has 285 cosponsors, is expected to result in 50% of recipients now affected by the GPO having their benefits increased, including 29% for whom the offset would be removed completely. For the record, legislation is pending before this committee to eliminate the offsets in their entirety. H.R. 2638, deserves your full consideration.

Since its inception, Social Security has provided a "safety net" for American workers and their spouses in their older age and remains the foundation for retirement income in America today. It is essential that Social Security be reformed to ensure that all workers regardless of whether they spent part or all of their careers in the public sector, receive the benefit they deserve.

As the Congress begins to address the various components of Social Security reform and there are many. I believe it is imperative that we consider the negative effects of the GPO and WEP on public employees and school teachers as part of any such reform. Thank you again, Chairman Shaw and Ranking Member Matsui for holding this hearing and setting us on the path to improving Social Security.

Statement of Yung-Ping Chen, Frank J. Manning Scholar's Chair in Gerontology, University of Massachusetts Boston

Mr. Chairman: I appreciate the opportunity to submit this statement on improving the benefit structure of Social Security. For the record, my name is Yung-Ping Chen. I am the Frank J. Manning Scholar's Chair in Gerontology at the University of Massachusetts Boston. My academic and professional background in the field of Social Security and economics of aging includes the following: member of the technical panel of actuaries and economists of the 1979 Advisory Council on Social Security; delegate or consultant or both to the 1971, 1981, 1995 White House Conferences on Aging and the 1998 White House Conference on Social Security; and faculty appointments at several colleges and research organizations. I am a member of the American Economic Association, a founding member of the National Academy of Social Insurance, and a fellow in the Gerontological Society of America. I currently serve on the board of directors of the National Council on the Aging. The views I express here, however, are those of my own and do not necessarily represent the positions of any organization with which I am affiliated.

Let me begin, Mr. Chairman, by commending you for holding this hearing. Although changing family structure and the changing role of women in the workplace will affect the scope and value of Social Security protection, there has been relatively little discussion of the issues involved. This hearing, I am certain, will spark more public interest and discourse on the subject. It will be very important that there be an extensive discussion. It is my thesis that if Congress does not update its eligibility rules, Social Security could become a less effective policy instrument of income protection for many potentially at-risk individuals.

This statement calls attention to several issues brought about by the effects of changing family patterns on the benefits structure of Social Security: (1) Fewer people may be eligible for Social Security benefits. (2) More blacks and Hispanics may be ineligible for Social Security benefits. (3) Problems with some proposals for aiding older women. (4) Necessary caveats in policy development.

Fewer People May Be Eligible

Social Security provides income not only to retired and disabled workers but also to their eligible dependents and survivors (auxiliary beneficiaries). Survivors of victims of the terrorist attacks of September 11, 2001 received their first Social Security checks only three weeks afterwards. By year end, the Social Security Administration had processed 94 percent of some 5,000 claims filed by victims' families, paying about $2.8 million monthly to these survivors. No deed speaks more eloquently for the protection Social Security offers to dependents and survivors of covered workers.

However, eligibility precedes assistance. Family structure changes during the past 30 years or so may have already resulted, in percentage terms, in fewer people being eligible for auxiliary beneficiaries in recent years. For example, the proportion of new awards for auxiliary beneficiaries in the total number of new beneficiaries has declined. In 1970, 54.3% of new awards went to dependents and survivors. That percentage has steadily declined—to 52.3% in 1980, 42.6% in 1990, and 40.4% in 1997 (see Table 1).

Future relative decline in auxiliary beneficiaries may be expected to be much greater because family pattern changes will affect Social Security benefit eligibility with a time lag of decades. The share of new awards for dependents and survivors in the total new awards is now estimated to decline—to 35.7%, continuing the trend cited in the previous paragraph. (see Table 1).

More Blacks and Hispanics May Be Ineligible

Problems of ineligibility for Social Security benefits may impact blacks and Hispanics more severely because some of the changes in family patterns have been more pronounced among these minorities than among whites.

Compared to whites, these blacks and Hispanics have much smaller percentages of married persons, much larger proportion of never-married persons, much higher rates of poverty, and much greater shares of their children living with a single mother.

Concerning the declining percentage of married persons from 1970 to 1999, the drop was 15% for whites, 36% for blacks and 18% for Hispanics. More specifically, the trends from 1970 to 1999 (U.S. Census Bureau, 2000) were as follows:

- 15% drop among whites, from 73% to 62%
- 36% drop among blacks, from 64% to 41%
- 18% drop among Hispanics, from 72% to 59%.

Regarding the rise in the proportion of never-married persons from 1970 to 1999, the increase was 31% among whites, 86% among blacks, and 53% among Hispanics. More specifically, the trends from 1970 to 1999 (U.S. Census Bureau, 2000) were:

- 31% increase (from 16% to 21%) for whites
- 86% increase (from 21% to 39%) for blacks
- 53% increase (from 19% to 29%) for Hispanics.

These trends appeared to have resulted in relatively fewer Social Security beneficiaries as dependents and survivors for blacks. While about 62% of new awards were for dependents and survivors in 1970 and 1980, that proportion declined to about 52% in 1990 and 44% in 2000, according to our calculations of the latest statistics (Social Security Administration, 2002). The racial/ethnicity dimension is therefore highly significant.[1]

Proposals for Older Women

How older women fare under Social Security has become a major issue, with widows and divorcees in poverty as the predominant concern. The poverty rate for women 65 and over as a group was 11.8% in 1999, and the differing rates by marital status were (Anzick & Weaver, 2000):

- Married 4.3%
- Widowed 15.9%
- Divorced 20.4%
- Never married 18.9%.

Several proposals have been suggested to deal with the poverty problem among widowed and divorced people:

- Raise the survivor benefit and lower the spousal benefit (e.g., Iams & Sandell, 1998; Smeeding, 1999)
- Lower the length-of-marriage requirement (e.g., Smeeding, 1999)
- Provide minimum benefits (e.g., Advisory Council on Social Security, 1996)

Raise the survivor benefit and lower the spousal benefit. Over the years, there have been proposals for Social Security to offer a better survivor benefit by reducing the spousal benefit and raising the survivor benefit: for example, lowering the spousal benefit to 33% from the current 50% of the higher earner's benefit, and raising the benefit to the surviving spouses to 75% of the combined benefit of the couple before death occurred.

This type of proposal raises a number of questions.[2] Would a cut in the spousal benefit drive into poverty those couples living not far above the poverty line? What about couples who are already poor when they retire?

Moreover, what is meant by a spousal benefit? Under Social Security, a woman can receive benefits based, in essence, on the larger of the two, her own earnings record or her husband's earnings record. Today, more than one in four (26% of all female beneficiaries) receive their own retired worker benefit plus an amount that raises it to what they would be entitled to as spouses. In this case, to what part of her benefit does a spousal benefit reduction apply?

This proposal has been suggested on the supposition that, with more and more married women staying in the labor force longer and earning higher pay, they would be receiving Social Security benefits on their own earnings records (Butrica & Iams, 2000). However, another study (Levine, Mitchell, & Phillips, 2000) has pointed out that many more married women would qualify for retired worker's benefits because of longer work histories, but many of them still would receive higher benefits in spousal benefits. To reduce the spousal benefit from 50% to 33% (the most com-

[1] Changing family patterns may also adversely affect child benefits. Owing mainly to births to unmarried mothers and high divorce rates, nearly one in four children now lives with a mother only. In 1998, 51 percent of black children and 27 percent of Hispanic children lived with their mothers only, compared to 18 percent of white children who did. Since women generally earn less than men, child benefits will be lower when they are based on mothers' earnings rather than on fathers'.

[2] I have benefited from discussion and personal correspondence with Sara Rix.

monly suggested reduction) would therefore impose a financial cost that may not be easily dismissed or ignored.

Finally, what of the divorced women who receive a spousal benefit based on their former husband's earnings records? They will receive higher benefits only when their former spouses have died.

Lower the length-of-marriage requirement. Another suggestion to deal with the divorced spouse's benefit problem is to lower the number of years of marriage required for benefits. Now the requirement is at least 10 years (since the 1977 law). The requirement was at least 20 years when the benefit was first instituted under the 1965 law.

Lowering the required length of marriage to 7 years or 5 years has been proposed. However, it begs the question: For what was the spousal or survivor benefit intended. If it was designed to protect a marriage partner for the sake of the family over the long term, then it may be questionable to lower it further.

At a practical level, unless the current law provision allowing several ex-spouses (e.g., wives) to receive benefits based on one ex-spouse (e.g., husband) is changed, lowering the length of marriage would increase the likelihood of the number of multiple recipients of benefits as ex-spouses.

Provide minimum benefit. One of the plans proposed in the last advisory body (Advisory Council on Social Security, 1996) as well as several bills introduced in Congress would create a new system of minimum Social Security benefits. For example, an individual who has worked for 40 years and thus is qualified for 40 years of coverage will be guaranteed a Social Security benefit equal to 100% of the poverty income level. This minimum benefit would apply to retired workers with at least 20 years of coverage, but the minimum benefit for them would equal only 60% of the poverty level of income.

Those who have worked between 20 and 40 years of coverage would receive prorated minimum benefits, based on their number of quarters of coverage. Widows or widowers would be covered by the minimum benefit guarantee based on their spouse's earnings records.

Under this proposal, the full antipoverty impact of the minimum benefit will be felt only by those who have worked for 40 years. What about those with fewer years of work? Because it begins to apply for people with 20 years of work, this minimum benefit provision eludes altogether those with less than 20 years of eligible work.

Caveats in Policy Development

In thinking about how best to protect financially at-risk people, one needs to be mindful of the nature and purpose of the Social Security program. If Social Security is an employment-based income-replacement system financed exclusively or largely by the payroll tax, then there is a limit to what types of benefit and what levels of benefits should be considered appropriate.

Another consideration to keep in mind is that there are reasons for the low-income status of many elderly widows, widowers, and divorced persons that lie outside the Social Security system. Analyzing the causes of widow poverty, for example, one study suggests the following rough breakdown of several factors:

- Prewidowhood difference in economic status, 20–26%;
- Decline in Social Security benefits at widowhood, 40–50%;
- Declines in pension income at widowhood, 15%; and
- Declines in income from other assets at widowhood, 10–15% (Schoeni, 2001).

Is Social Security an appropriate instrument for compensating for the prewidowhood differences in economic status or income declines from other assets at widowhood, or for the deficiencies in employer pension programs? Should we not explore improvements with other policy vehicles?

Concluding Remarks

The first two proposals (raising survivor benefit and lowering spousal benefit; shortening the length of marriage requirement) may help reduce poverty among widowed and divorced people, but they would not help the never married. While it is directly targeted at removing poverty, the third proposal, as outlined, is limited in its effectiveness.

While I would like to see a different formulation for Social Security, here is not the place for expounding it. For your possible interest, however, I submit in Attachment I a very short article that briefly explains my preference.

Finally, let me once again express my appreciation for this opportunity to express my views.

Table 1—Proportions of New Beneficiaries[a] as Retired Workers, Disabled Workers, and Dependents and Survivors,[b] in Selected Years (1970–2010)

[In percent]

Year[c]	Retired Workers	Disabled Workers	Dependents and Survivors	Total
1970	36.2	9.5	54.3	100
1980	38.3	9.4	52.3	100
1990	44.8	12.6	42.6	100
1997	44.5	15.2	40.4	100
2010	48.8	15.5	35.7	100

Notes:
[a] New beneficiaries refer to those awarded benefits in each year.
[b] Dependents and survivors include wives/husbands, children, widow(er)s, widowed mothers/fathers, and parents.
[c] For 1970–97, from actual data; for 2010, based on estimates.
Sources: For 1970–97, calculations based on data in Table 6.A (OASDI Benefits Awarded: Summary), *1998 Annual Statistical Supplement to the Social Security Bulletin,* Social Security Administration, SSA Publication No. 13–11700, p. 254. For 2010, calculations based on unpublished estimates supplied by the Office of the Chief Actuary, Social Security Administration, February 1 and February 13, 2002.

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Attachment I: "A '30s mechanism, ripe for retooling" by Yung-Ping Chen, Boston Sunday Globe, March 10, 2002.

Boston Sunday Globe March 10, 2002

POLICY

A '30s mechanism, ripe for retooling

The Social Security debate targets future insolvency, but problem now is benefits framework from the past.

By Yung-Ping Chen

Most of the national debate about overhauling Social Security focuses—sometimes seemingly endlessly—on ensuring its long-term solvency. But there is an important area of the governmental safety net that is not getting the attention it deserves: the outdated benefits structure.

Since Social Security not only provides income to retired and disabled workers but also to their eligible dependents and survivors, any shifts resulting from the debate should include analyzing and updating benefits. If Congress restores solvency without simultaneously modernizing its eligibility rules, Social Security could become a less effective way to protect people's incomes.

Simply put, Social Security's family benefit provisions have not changed in concert with evolving social trends in decades, leaving more and more vulnerable people—most of them women, minorities, and children—with less or no protection. As the federal government overhauls the program, it should ensure that it eventually covers more, not fewer, people.

Today's benefit provisions were promulgated for family norms of the distant past. Enacted in 1935, Social Security began paying benefits in 1940. At that time, the typical family consisted of a wage-earning father, stay-at-home mother, and children. Most people married; they did so at younger ages; they had more children; and most marriages lasted a lifetime.

During the last 30 years or more, many social conventions have changed dramatically. More women work for pay. Fewer people marry; they marry later; they divorce more often and sooner; and some never remarry. Increasingly, many people are not marrying, and unmarried-couple households have multiplied.

Consequently, increasing numbers of people do not qualify for spousal or survivor benefits. Divorced people who were not married for at least 10 years or people not legally married are ineligible for benefits as spouses, ex-spouses, or survivors.

Even for those who are legally married, the problem of lower benefits arises for some widows and widowers. Under current law, a surviving elderly spouse may receive his or her own "retired worker" benefit or a "survivor benefit," based on the deceased spouse's earnings, whichever is higher. Suppose the husband's retired worker benefit is $1,000 a month. If his wife has not worked at all or if her earnings entitle her to a retired worker benefit of less than $500, then she receives a spousal benefit of $500, half her husband's. Together they receive $1,500. When he dies, she receives $1,000, two-thirds their combined benefit.

In fact, a survivor may get only half, instead of two-thirds, their combined benefit if husband and wife are each entitled to the same retired worker benefit, say $750. Between them, they receive $1,500, the same total as for the couple above. When he dies, her benefit stays at $750, only half their combined total. As two-earner families become more prevalent and their respective earnings approximate each other's, it is becoming more common that the survivor gets less than two-thirds of the combined benefit.

These reduced benefits may drive some widows or widowers into poverty, since the official poverty threshold for one elderly person is nearly 80 percent of that for an elderly two-person household. Together with ineligibility, lowered benefits for survivors may help explain why the poverty rate among non-married older women (widowed, divorced, and never married) is about 20 percent, four times the rate for older married women.

Changing family patterns may also adversely affect child benefits. Owing mainly to births to unmarried mothers and high divorce rates, nearly one in four children now lives with a mother only. Since women generally earn less than men, child benefits will be lower when they are based on mothers' earnings.

Further, problems caused by ineligibility and lower benefits affect blacks and Hispanics more severely. Compared with whites, a much smaller proportion of blacks and Hispanics are legally married, a much greater percentage of them never married, a much larger share of them are poor, and a much larger portion of their children live with single mothers (respective percentages for such black, Hispanic, and white children were 51, 27, and 18 percent in 1998).

The preceding demonstrates the necessity of updating family benefit rules. One way to solve the problem some widows, widowers, and the divorced face is to allow a married couple to share their earnings. Under earnings sharing, half the total earnings of the couple would be credited to each spouse's earnings records. When one spouse dies, the survivor would inherit all or most of the earnings credits of the deceased. At divorce, each spouse's separate earnings records would be the basis for calculating Social Security benefits, regardless of the length of marriage.

But earnings sharing will not help the nevermarried. Nor will it help alleviate poverty generally. A good overhaul method would be to combine earnings sharing with a two-tier benefit structure. The first tier would provide a flat-rate benefit, payable to eligible people for age or disability, regardless of earnings. The second tier would be based on earnings—an individual's earnings when single, plus half the couple's combined earnings while married.

The first-tier benefit should be integrated with the Supplemental Security Income Program. Like that program, this first-tier should be paid out of general revenue, not the payroll tax, because this basic benefit is designed to redistribute income and prevent poverty. The second-tier benefit should be funded by payroll taxes because it is earnings-related.

Doubtless there are other methods. But any overhaul must ensure that Social Security will protect as many potentially at-risk individuals as possible.

Yung-Ping Chen holds the Frank J. Manning Eminent Scholar's Chair in gerontology at the University of Massachusetts Boston.

Statement of Charles G. Hardin, President, Council for Government Reform, Arlington, Virginia

Mr. Chairman, My name is Charles G. Hardin and I am President of the Council for Government Reform (CGR). CGR is a grassroots advocacy organization of over 500,000 supporters seeking responsible and limited government. We have a long history of supporting the addition of personal retirement accounts as the most responsible way to reform Social Security, but we realize major reform cannot take place until a number of concerns are addressed. The measures under consideration today pave the way for major reform by focusing attention on the special needs of current retirees, women, and current workers. They also have the added bonus of giving today's workers information that will help them make better plans for retirement security.

Benefit Guarantee Proposals

Several legislators have introduced bills that would guarantee Social Security retirement benefits to those currently receiving those benefits and to new retirees as they turn 65. Likewise, the President's Commission to Strengthen Social Security offered several proposals that could be implemented with or without legislative activity.

Over the last several years, CGR has collected almost 2 million petitions from grassroots activists calling for, among other things, an ironclad promise that retirement benefits be backed by the full faith and credit of the U.S. government. While CGR and its members recognize the importance of fundamental Social Security reform, we also realize the necessity of addressing the legitimate concerns of current recipients who may be frightened about losing their benefits.

We support proposals that will conclusively address these fears and congratulate the Social Security Subcommittee for recognizing the need to address seniors' concerns before proceeding to the larger tasks ahead.

Women and Social Security Retirement

The role of women in society has changed since Social Security was enacted in 1935. At the time, it was assumed that a woman would not work and her benefit computations were based upon her husband's lifetime earnings. While the number of working women has increased dramatically in the last several decades, women are still disproportionately dependent on Social Security in retirement. Roughly 15 percent of women retire poor. Poverty rates are even higher for minority women: 29 percent of black women and 28 percent of Hispanic women retire in poverty. Twice as many women as men retire in poverty and women receive only 75 cents in Social Security benefits to men's one dollar.

Personal Retirement Accounts will allow women to own and control their own retirement, and is therefore the most pro-woman reform that can be enacted. I applaud the subcommittee's examination of this difficult issue.

"Right-to-Know" Legislation

For a majority of the 123 million American workers who receive it, the annual *Your Social Security Statement* (YSSS) is the sole source of official information they will receive regarding retirement benefits. Unfortunately, these statements downplay or omit important information about those benefits. They include an accounting of Social Security taxes the individual worker has paid to date, the worker's eligibility for benefits, and an estimate of the various types of benefits the worker and/or family could receive under different circumstances; but while workers are told that they will receive a specific dollar amount from Social Security, they are not told that the money may not be there for them. Nor are they given any idea of the rate of return on their taxes (which for some constitutes an absolute loss).

CGR believes American workers should be told the truth about Social Security's financial future and its impact on the retirement benefits they expect to receive. As taxpayers, they should have a right to this information, which can be provided by the Social Security Administration at little or no cost. The additional information provided pursuant to H.R. 634, S. 354, and similar bills would go a long way toward enhancing the quality of the Social Security debate and enabling Americans to plan more realistically for their retirement years.

Conclusion

The Subcommittee is considering three measures, each of which is important in its own right. The proposals also will move the larger debate on Social Security reform in the right direction. Mr. Chairman, the Council for Government Reform applauds your convening this hearing. We support the Subcommittee in its work and we stand ready to assist in whatever way possible. Thank you.

Statement of the Hon. Ralph M. Hall, a Representative in Congress from the State of Texas

Mr. Chairman and Members of the Committee, I would like to extend my sincere thanks for holding these important hearings to allow Members to testify regarding improvements for Social Security. Social Security is so vital to the millions of Americans who depend on it as their only source of income, and we need to do all that we can to improve and secure Social Security for current and future generations of Americans. The President's Commission to Strengthen Social Security last year presented three models for modifying the current Social Security program and those need to be thoroughly discussed and debated. Obviously this is not an easy discussion, and there is not an easy answer.

I would like to bring the committee's attention to several issues of importance to my district regarding Social Security. As an advocate of shoring up and protecting the Social Security Trust Fund, I have sponsored two bills in this Congress addressing Social Security reform. H.R. 96, the Social Security Preservation Act of 2001, would take Social Security funding out of the federal budget, so that funds could not be used for any other purpose, such as paying off the national debt. In addition, it is my proposal that the funds would be placed in interest-bearing accounts with the purpose of increasing the amount of the Trust Fund. I have also introduced H.R. 97, the Notch Fairness Act of 2001, which will rectify the discrepancy that those born in the "Notch" years are facing.

I am a co-sponsor of a bill that would repeal the Social Security earnings limit for early retirees ages 62–64. In the last Congress, the earnings limit was repealed for workers 65 and older, and now it is time to do the same for workers in the 62–65 years of age category. The earnings limit is a disincentive for seniors to continue working because they cannot afford to have their Social Security benefit reduced. This is a shame because seniors are loyal and experienced workers and an asset to any employer.

I have always advocated that one-fourth of the federal surplus should be put toward the Social Security Trust Fund. As you may know, the annual report released by the Social Security Trust Funds, projects that Social Security expenditures will exceed revenues, so it is critical that we do more to protect Social Security.

Other issues of extreme importance to constituents in my district are Government Pension Offset and the Windfall Elimination Provision. These affect thousands of people who have paid into Social Security and into state retirement plans but cannot receive the full benefits of both. You may even be receiving calls, letters or emails from constituents in your districts concerning these issues as well. Current law affects the many teachers, postal workers and policemen, among others, who may have paid into social security as well as their own retirement plans and are seeking to receive the benefits of both. I am a co-sponsor of H.R. 2638, The Social Security Fairness Act of 2001, a bill that would eliminate the dual entitlement laws that prevent these important members of our communities from benefits that are rightfully theirs.

Again, I thank the Chairman for holding these important hearings on Social Security and I urge my colleagues to support these issues as part of a comprehensive Social Security Reform.

Statement of the National Association of Orthopaedic Nurses

The National Association of Orthopaedic Nurses (NAON) is the professional nursing society composed of 8,000 nurses throughout the United States dedicated to improving the health of patients with orthopaedic and musculoskeletal problems.

NAON is very concerned about any change to the structure of Social Security because such a large percent of our patients are women or individuals with severe disabilities who rely heavily on Social Security. These individuals are very vulnerable to any changes in the disposable income that they have for medical bills or medications. Many of the patients we care for have medical bills not covered by Medicare. In addition, many of our patients require numerous medications and assistance in the home. Any change in the amount of money received through Social Security could seriously impact our patient's ability to pay for their medical needs, general health care and to remain in their own homes.

Vulnerable Patient Population

The patient population that our nurses care for may have suffered from falls, trauma, violence or degenerative and other musculoskeletal diseases. Many of the patients we care for are women, due to women's longer life expectancy and higher incidence of chronic diseases. Nine in ten women age 65 and older report that they have one or more chronic conditions and approximately three out of four women have two or more chronic conditions. Many of our patients suffer from osteoporosis that can eventually cause fractures and falls. In 1996, 21% of women had osteoporosis or had broken a hip. Many of our patients have arthritis, including rheumatoid arthritis—a severely debilitating form of arthritis. In fact, arthritis is the most debilitating disease in this nation and in 1996, 61% of women reported having arthritis. In addition, a large number of our patients have degenerative and autoimmune diseases, such as lupus and scleroderma. Autoimmune diseases have a higher rate among women, and thus again are more vulnerable to changes in their Social Security income.

Social Security Provides Needed Disposable Income for Health Costs

Social Security provides economic security for older women and the medically poor. The median personal income for women age 65 or over is $9,355, but for men it is $16,484. Without Social Security, over half of all elderly women would be living in poverty as three-quarters of the nation's elderly poor are women. Women represent almost 60% of all Social Security recipients aged 60 and over, and 72% of recipients 85 and over. Without Social Security, the poverty rate for all older individuals would rise from 9% to 50%. Forty-one percent of the total Social Security beneficiaries are kept out of poverty because of Social Security.

Women's lifetime earnings, access to pensions and ability to save continues to be less than that of men's. Women are far less likely than men to have substantial retirement savings and thus depend more on Social Security income than men do. In 1996, 45% of unmarried men age 65 or older had pension coverage while 33% of unmarried women had pension coverage. The average pension in 1995 for women was $6,684/year but for men it was $11,460. 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. Seven out of ten of the poor elderly are women, and the poverty rate for women 65 and over is more than 60% higher than that of men.

These vulnerable populations that we have discussed require medications or assistance with their activities of daily living (ADL's). Because Medicare does not currently cover the cost of medications, hiring someone to assist with ADL's and only minimal coverage for home nursing assistance, women, the elderly poor and the disabled will be severely affected by any drop in the amount of Social Security income.

NAON urges Congress to consider the following:

1. Privatization: Privatization of Social Security into annuities or stock could lead to loss of money and ultimate loss of benefits to those most in need. As recently seen by the Enron scandal, investment in stock (even in companies that seem to be rock steady) can lower overall return investments and dividends to beneficiaries. Beneficiaries could lose significant amounts of benefits if money is invested in companies with poor performance.

2. Computation of earnings: Increasing the computation period would harm women and a large majority of our patients most in need of disposable income for health care costs. Any proposal that increases the computation period from 35 years to 38 years, based on increased life expectancy, could ultimately harm those most in need. Again, many women do not have the current 35 years of earnings used to calculate benefits because many women work part time or take time off to raise families or care for an aging parent. Women average 11.5 years out of the workforce to fulfill caregiving responsibilities. For each year that an individual does not pay into Social Security, a "zero year" is accumulated in the account. The zero years are included in the average when the benefit amount is being calculated, and women tend to be more affected by these "zero years" than men.

3. Earnings Limit on Seniors Age 62–64: This would again hurt those most in need. Because women often enter retirement with lower average lifetime earnings, their Social Security benefits often must be supplemented. For those women age 62–64, the tax punishment for working even a minimal amount in a year is still extremely heavy. Congress should end all earnings limits and lift this major financial burden from women and men.

4. COLA Changes: Privatizing Social Security so COLA is lost would harm those most in need of disposable income for health care costs. 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. Cost of living increases are not typically provided for in private annuities. Social Security currently protects against inflation by annual adjustments to keep pace with inflation as measured by the Consumer Price Index. Reductions in the COLA would have the greatest impact on those who live longest—women. Women also have the most to lose by COLA reductions. Reducing the COLA by 1% would cut a person's lifetime benefits by 10%. An individual who lives to age 80 would receive monthly benefit checks that would by 16% less than they would have been if full inflation protection had been maintained.

NAON urges the Subcommittee on Social Security, House Committee on Ways and Means to seriously consider any change in Social Security against the impact it would have on vulnerable populations. As shown here, any loss in the amount of disposable income available to vulnerable populations could increase the amount of individuals requiring Medicaid, thus increasing total federal expenditures in the long run. It would also place vulnerable populations, such as the disabled, infirm and women, to choose between eating and paying for medications or needed medical care. NAON looks forward to working with Congress on this important issue to assure that vulnerable populations' needs are met for the future.

Statement of Heidi Hartmann, Ph.D., Chair, National Council of Women's Organizations Task Force on Women and Social Security, and President and Chief Executive Officer, Institute for Women's Policy Research

On behalf of the National Council of Women's Organization's (NCWO) Task Force on Women and Social Security, I welcome the opportunity to submit written comments on the subject of "Social Security Improvements for Women, Seniors, and Working Americans."

For nearly two decades, NCWO has convened the leadership of more than 150 nonpartisan, nonprofit women's organizations representing over six million women. In 1998, NCWO formed the Women & Social Security Task Force to highlight the program's importance to women and families, and to urge policy makers to consider women's needs as the debate unfolds. I am pleased to report that we have made considerable progress in activating the grassroots' members of the participating NCWO organizations to become engaged in the discussion in communities across the nation.

The Task Force also highlights specific benefit improvements that can reduce older women's poverty and correct gender inequities in the current system, and educates policy makers to include these proposals in reform packages. In addition, we are working to build consensus among women's organizations and key stakeholders to preserve Social Security's protections for women and other disadvantaged groups.

In addition to chairing the Task Force, I am an economist and the President & CEO of the Institute for Women's Policy Research (IWPR), a public policy research organization focused on issues of concern to women and their families that I founded in 1987.

Social Security is vital for women.

Social Security is the heart of our nation's social insurance program, providing universal coverage for workers and their families through pooling of resources that guarantees benefits to all. This program is very important to women. Sixty percent of Social Security beneficiaries are women and Social Security is the major source of retirement income for a majority of them.

Privatization & the Unique Life Pattern of Women

The current debate on Social Security reform is focusing on the creation of private Individual Accounts. Supporters of privatization have either inadequately or erroneously addressed the implications of their proposals for women. In part, this omission may stem from the perception that women's situations will improve over time as more women are employed in the paid work force for longer periods of time. Certainly, the past three decades have seen a dramatic increase in the number of women working in the paid labor force. Most women, however, still have very different working lives than men. Women who work full-time, year-round earn only 75 percent as much as men. Moreover, women are much more likely than men to work part-time. For example, in 1996, only half of women aged 25–44 worked full time year round (compared with three quarters of men). If part-time workers are included, women earn only 60 percent as much as men. Women also remain much more likely to take time out of the labor force to care for children and elderly relatives. Shorter, less lucrative, careers result in lower incomes in retirement for women (Shaw, Hill, and Hartmann, 2000).

Nevertheless, despite women's increased participation in the labor market, researchers predict that poverty among elderly women will be as high in the 2020s as it is today (Smeeding et. al. 1999). This is partly due to the fact that in the future more retired women will be divorced, separated, or never-married and, therefore, much more vulnerable to poverty. In other words, while future generations of women will be economically disadvantaged for different reasons, they are not likely to fare much better than their mothers and grandmothers. For the foreseeable future, women face a high likelihood of poverty and near-poverty in old age and have special reasons for wanting to protect and enhance Social Security.

Poverty among the Elderly

Women are more likely than men to be poor in old age. In 1998, about 13 percent of women age 65 and over had incomes below the poverty level compared with 7 percent of men of the same age. Women of color are particularly at risk for poverty in their old age. Older African American and Hispanic women are much more likely than white women to be poor. Almost 30 percent of black women aged 65 and over were poor in 1996, compared with 28 percent of Hispanic women and 12 percent of aged white women. Poverty at older ages also varies markedly by marital status and living arrangement. Married women are much less likely to be poor than nonmarried women, especially those who are living alone or with unrelated persons.

The risk of poverty increases with age. Of women aged 75 and older, 15 percent had incomes below the poverty line, while 11 percent of all women aged 65 and 74 are poor. In large part, poverty among women aged 75 and older can be explained by the increase in the number of women living alone, having survived their husbands. Widows lose part of the couple's Social Security benefits and, in many cases, part or all of their husbands' private pension benefits. Income tends to decline for other reasons, as well. Sometimes income falls when assets are spent down for health care or other expenses. Sometimes income falls when work is no longer possible. Women who supplement their Social Security benefits with part time employment when they first retire, may become poor as they age into their seventies or eighties and can no longer work (Shaw, Zuckerman and Hartmann 1998).

Poverty among the elderly, though still high for some groups of women (and men), has decreased markedly over the last 40 years. Much of the improvement in living standards of the elderly can be attributed to the increase in coverage and benefits made available through improvements in Social Security. Today, Social Security benefits account for slightly over half of the income of unmarried elderly women (compared with about 40 percent for unmarried men) and 36 percent of couples' incomes.

Women depend more on Social Security because they enter retirement with fewer resources than men. The greatest disparity lies in accumulated pension wealth and savings, with Social Security credits partially compensating for this gap (Mitchell, Levine and Phillips 1999). For example, of women age 65 and older in 1995, only 26 percent received income from an employer-provided pension plan compared with 46 percent of the men age 65 and older. At the same time, women's pensions were worth 58 percent of the value of men's pensions (Employee Benefit Research Institute 1997). These figures not only reflect women's lower earnings and fewer years of work, but also that the survivor benefits widows receive from their husbands' pensions typically pay 50–60 percent of the amount their husbands received.

The percentage of women receiving income from employer-based pensions is likely to increase in the future. Because of their different work patterns, however, the gap between men and women's pension coverage and benefit levels is likely to remain large. While coverage rates for men and women who currently work full-time are nearly the same (about 50 percent), only 15 percent of women working part time were covered by pension plans (National Economic Council Interagency Working Group on Social Security 1998). Because of the pay gap, women's pensions will also continue to be smaller than men's pensions.

Social Security's *Guaranteed* Benefits

Without Social Security, more than half of women aged 65 or older would be poor. For 25 percent of unmarried elderly women (widowed, divorced, separated, or never married), Social Security is their *only* source of income.

The Social Security system provides protections that are likely to remain particularly important to women. First, Social Security replaces a higher proportion of the earnings of lower-earners. As women tend to earn less than men, this provision benefits women. Second, Social Security provides benefits for wives (or husbands) or widows (or widowers) who earned significantly less than their spouses. Spouses divorced after ten years of marriage can claim these benefits, even if their former partner remarries. Third, because women tend to live longer than men, the fact that Social Security provides an inflation-adjusted lifetime income is particularly important to them. Finally, the life and disability insurance provided by Social Security is extremely important to women, especially the provision giving benefits to spouses caring for children under 16 if the worker retires, becomes disabled, or dies. Women represent 98 percent of the beneficiaries of this provision. Benefits to the children are also important to the family's economic security, whether the mother takes the caretaking benefit or works in the labor market.

Problems with Private Accounts

Much has changed since President Bush appointed his Social Security commission last year and since Members of Congress first devised plans to create Individual Accounts. New priorities as a result of the horrible events on September 11th and the ensuing War on Terrorism have sidelined the public policy debate on issues like Social Security reform in the short-term. Perhaps most significantly, the current economic conditions facing the nation and the return of federal budget deficits put into question both the viability and wisdom of partially replacing Social Security's current guaranteed benefits with a combination of lower benefits and Individual Accounts subject to the uncertainties of the stock markets and requiring massive transfers of general revenues that are no longer available.

Diverting revenue from Social Security to create individual accounts will not address the long-term fiscal health of the program. For example, a 2 percent carve out will double the size of the shortfall, require deep cuts in guaranteed benefits, and further increase elderly poverty.

For this reason, NCWO opposes individual accounts carved out of Social Security because the trade-off of *potentially* higher returns from the stock market simply does not outweigh the benefits of current Social Security system: the full faith and credit of U.S. Government guaranteed, lifetime, inflation-adjusted, benefits for retirees, spouses, dependents, survivors, and the disabled (and their spouses and dependents) based on a progressive benefit formula.

While supporters of private accounts are not advocating replacing Social Security "wholly," and it appears that they would annually adjust the remaining benefits for inflation, the ***guaranteed*** benefits provided by the reformed Social Security system would be significantly less than those promised under current law.

More importantly, however, are proposals to recalculate the initial benefit an individual receives by adjusting the benefit formula each year according to the growth in prices, called **Price-Indexing**. This would substantiallyreduce guaranteed benefits, by as much as 50 percent. Under current law, the initial benefit a person receives is tied to the growth in wages, which usually rise more rapidly than prices, and, therefore, helps the Social Security recipient maintain a standard of living similar to when they were in the labor force. Price-Indexing initial benefits would mean a significant cut in current law benefits and put future generations of Social Security recipients at risk for poverty.

Other cuts in benefits also would harm women, as well as men. Increasing the retirement age would force women to wait to receive their full benefit. Moreover, changing the benefit formula by increasing the number of years used to calculate benefits would disproportionately harm women relative to men because women spend more time out of the workforce raising children and caring for elderly relatives.

With lower guaranteed benefits, wives, widows, and divorced women may be further impoverished, depending on the timing of their retirement. For example, if the account balance is converted into an annuity during an economic downturn (rather than in a period of stock market growth), the retiree and survivor will be stuck with smaller monthly benefits for the remainder of their lives. Also of concern are provisions that would allow the worker to "cash-out" a portion or all of the account balance and the impact this would have on the spouse's, widow's or divorced spouse's future benefits.

Supporters of Individual Accounts also make much of the added advantage to a divorced spouse of being able to receive an equal share of accumulated account assets and interest at the time of divorce. While this provision would benefit those with marriages lasting fewer than ten years, more data is needed to determine whether this would represent an actual increase in retirement income for women at the bottom of the economic ladder. It is also important to note that women have not generally fared well in divorce proceedings in gaining access to their husbands' pensions. It is unlikely they will do well with individual accounts, unless the division is completely automatic, as the draft report suggests.

The claim of "increased benefits through higher rates of return" made by supporters of private accounts include optimistic assumptions about the stock market, the administrative costs of managing the accounts, and the availability of low-cost inflation-adjusted annuities that are gender neutral (i.e., do not cost women more because they live longer).

Investment performance, individual investment decisions, and the timing of retirement would impact the amount of money an individual would receive in retirement. In contrast, under the current Social Security system, women do not face these risks, enabling them to count on a guaranteed benefit, adjusted for inflation, for the remainder of their lives. This is especially important for those who live longer, earn less, and see their retirement savings eroded by inflation.

The value of individual accounts will be smaller for most women because women have less money to contribute into the accounts in the first place. This is the direct result of lower lifetime earnings and years spent out of the workforce for care giving responsibilities. Smaller account balances also will have to be stretched over more years to account for the longer life expectancies of women. In contrast, the current Social Security system includes a progressive benefit formula that helps women and other low earners by replacing a higher percentage of earnings for those with lower lifetime earnings.

Private accounts will also fail to "preserve" benefits for the disabled and survivors without further benefit cuts for other workers, especially younger workers. It is likely that under private accounts, the value of disability and survivor benefits would fall.

If current Social Security disability and survivor benefits were preserved in a reformed private account system, much larger cuts in retirement benefits would be needed to pay for these benefits. Individual accounts also would jeopardize the disability and survivor benefits women depend on because the account balances would be subject to the number of years the worker was able to make contributions before he or she died or became disabled. Smaller accounts would provide much less income for the spouse and children of the disabled or deceased worker than Social Security now provides.

The benefits for spouses and surviving spouses would also be in question under individual accounts. Currently, women who have spent years out of the workforce or have worked in jobs paying less than their husband's jobs, have the opportunity to get a higher Social Security benefit than they would receive based on their own work record (and vice versa for men). Under individual accounts, it is not certain whether protections for spouses would be required. For instance, a worker's account divided at divorce would mean less money would be available for spouses in subsequent marriages.

Supporters of Individual Accounts have proposed establishing a new higher minimum benefit, thus arguing that low-earners would benefit from privatization. They are not proposing an increase in ***current law*** benefits. Rather, they are comparing the benefits that would be higher than the benefits available if ***absolutely nothing*** is done to improve the program's long-term solvency. Moreover, under some proposals, eligibility for the new minimum benefit would require an individual to work 30 years, a criterion which most women would fail to meet. Meanwhile, guaranteed benefits would be cut from the levels promised under current law.

It is important to assess both the efficiency and costs of providing proposed benefits for low earners in comparison with those offered by the National Council of Women's Organizations in the 1999 report, *Strengthening Social Security for Women* (as well as other proposals). Benefits can be raised for low earners much more cost effectively without incurring the unnecessary cost of setting up individual private accounts.

Other Options to Address Solvency

Even without any changes to the current system, the Social Security program will pay current law benefits in full for nearly forty more years. In 2038, Social Security will be able to meet 73 percent of current law benefits. This is **not** a crisis. Nevertheless, prudent action to address the program's long-term solvency, as well as to improve benefits and equity, is appropriate at this time. The current Social Security system's long-term financing could be improved with prudent minor changes enacted in the near future.

The National Council of Women's Organizations (NCWO) is considering several proposals to enhance revenue for the current system, including adjusting the maximum wage base subject to the payroll tax and collectively investing a portion of the Trust Fund in equities. These modest changes, coupled with economic growth comparable to what the nation's has experienced in the past, should go a long way to extending the life of the Social Security program decades into the future.

Strengthening Social Security for Women

NCWO believes that improvements to the system are necessary and can be achieved at a modest cost and within the framework of ensuring solvency.

The NCWO Task Force recommends that the benefits payable to survivors of married couples be raised to 75 percent of the couple's combined benefits, limiting the benefit (to that received by one steady, maximum earner) so that it does not disproportionately benefit the highest income spouses. This would benefit the largest group of elderly women who are poor—widows. This increase should be higher than 67 percent to help survivors of one-earner and two-earner couples, and the current spousal benefit of 50 percent should not be reduced to pay for the increase in benefits. Such a benefit increase could be enacted at any time, without reference to privatization. In its report, *Strengthening Social Security for Women*, NCWO explored several different ways of more adequately compensating women, whether married or not, for their unpaid care giving work.

The NCWO Task Force also recommends raising Social Security benefits for the lowest earners. This would help elderly single and divorced women, who have a higher poverty rate than do widows. The numbers in this category are increasing, especially among African-American women. The Task Force endorses the approach suggested by Dean Baker, of the Center for Economic Policy Research. He suggests raising the replacement rate for those with the lowest earnings (below the first bendpoint) from 90 percent to 100 percent, and phasing out the benefit so that increases would be limited to those with low average indexed monthly earnings.

The NCWO Task Force also recommends that benefits for divorced spouses be raised to 75 percent of the former spouse's benefit (while he is still living), rather than the current 50 percent. Upon the death of the former spouse, the divorced spouse receives the full widow's benefit of 100 percent of the deceased's benefit and this should continue.

The NCWO Task Force also recommends that any proposed changes to Social Security include amendments to Supplemental Security Income (SSI), to help the poorest recipients and ensure that the package leaves SSI recipients better, not worse, off than they are today. We support raising the SSI income disregards. All proposals to reform Social Security should also ensure that Medicaid eligibility is not affected by the increase in Social Security benefits.

Conclusion

In short, Social Security privatization would weaken the safety net for the nation's women and families rather than strengthen the program.

We urge you to abandon an individual account carve out approach and to address the modest financing gap with the prudent changes outlined above.

Thank you again for this opportunity to share our concerns. Should you have any questions, please don't hesitate to contact me at 202/785–5100.

References

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Smeeding, Timothy, Carroll Estes, and Lou Glasse, 1999. *Social Security and Older Women: Improving the System*. Washington, DC: Gerontological Society of America.

NCWO's Task Force on Women and Social Security developed a "Social Security Checklist" to evaluate Social Security reform proposals.

Does the proposal:

Address the Long-term Solvency of the Social Security system? Social Security is, perhaps, the most successful government program ever. Millions of Americans receive monthly benefit checks. This social insurance safety net is critical to ensuring that the most vulnerable can depend on receiving a basic level of guaranteed income in times of need. It also provides an inflation-adjusted supplement to those with other retirement income.

Continue to help those with lower lifetime earnings, who are disproportionately women? Social Security's benefit formula is currently structured so that the lowest paid workers receive benefits that replace a higher proportion of their pre-retirement earnings than higher-wage workers. Many of the lowest paid workers have no pension from their jobs. Any reform must retain this feature benefiting lower-paid workers.

Maintain full cost-of-living adjustments? Social Security's annual cost-of-living increase (COLA), which is indexed to inflation, is a crucial protection against the erosion of benefits. Because women live longer than men, on average, and rely more on Social Security since they often have no other source of retirement income, this provision is particularly important to women. Even when employment-based pension income is available, it is rarely inflation protected.

Protect and strengthen benefits for wives, widows, and divorced women? Social Security's family protection provisions help women the most. Social Security provides guaranteed, inflation protected, life-time benefits for the wives of retired workers, widows, and divorced women, many of whom did not work enough at high enough wages to earn adequate benefits of their own.

Preserve disability and survivor benefits? Social Security provides benefits to 3 million children and the remaining care-taking parent in the event of the premature death or disability of a working parent. Spouses of disabled workers and the widows (or widowers) of workers who died prematurely also receive guaranteed lifetime retirement benefits. Two out of every five 20-year-old today faces premature death or disability before reaching retirement age.

Ensure that women's guaranteed benefits are not subject to the uncertainties of the stock market? Proposals to divert current payments from the Social Security system into individually-held private accounts, whose returns would be dependent on volatile investment markets and would not be guaranteed to keep pace with inflation, would reduce the retirement income of many women. Without the guarantees of a shared insurance pool, cost-of-living increases, and lifetime benefits, many women could easily outlive their assets.

Address the care giving and labor force experience of women? In the current Social Security system, women are "compensated" for their care giving through the existence of spousal benefits. Although marriage and work patterns have changed since Social Security was established, many women continue to benefit from these provisions. The benefit formula for workers, which generally helps those with low lifetime earnings, also favors those with 35 years of labor force participation years, which many women lack because of family care giving. Moreover, the effects of sex-based wage discrimination during their working years are not fully offset by the more generous treatment lower earners receive. Such issues as divorce, taking time out of the workforce for care giving, the difference in current benefits between one- and two-earner couples, and the inadequacies in benefits for surviving spouses must be considered at the same time that solutions to strengthening the financial soundness of Social Security are being sought.

Further reduce the number of elderly women living in poverty? Social Security has helped reduce poverty rates for the elderly, from 35 percent in 1959 to less than 11 percent in 1996. In 1995, the poverty rate for all women over the age of 65 was 13.6 percent while the poverty rate among older women who lived alone was 23.6 percent. Without Social Security, the poverty rate for women over 65 would have been an astonishing 52.9 percent. Nevertheless, unmarried women still suffer disproportionately; single, divorced, and widowed women aged 65 or older have a poverty rate of 22 percent, compared with 15 percent for unmarried men and 5 percent for women and men in married couples.

Member Organizations of the Task Force on Women and Social Security, National Council of Women's Organizations:

American Association of University Women
Business and Professional Women, USA
Center for Advancement of Public Policy
The Feminist Majority Foundation
Institute for Women's Policy Research

MANA, A National Latina Organization
National Committee on Pay Equity
National Council of Negro Women
National Organization for Women
National Women's Law Center
Older Women's League
Wider Opportunities for Women
Women's Action for New Directions
Women's Institute for a Secure Retirement

Statement of the Hon. Mike Thompson, a Representative in Congress from the State of California

I would like to begin by thanking Chairman Shaw and my good friend from my home state of California, Ranking Member Matsui, for the opportunity to speak before their subcommittee. This is a unique and important opportunity for me to share my views on proposals to reform Social Security.

When this program was created by one of our greatest presidents, Franklin Delano Roosevelt, he envisioned a safety-net that would provide every American the opportunity to live with dignity and remain out of poverty following retirement.

This program would also provide essential support for women, minorities, and later the disabled. He understood that once this commitment was made, seniors would not have to fear their retirement years, and regardless of the economy or state of the world's affairs, they would not go into poverty. Roosevelt understood that Social Security is a guarantee. It is a sacred bond between Americans and their government.

I am proud to support Social Security and all that it accomplishes. We need to keep Social Security solvent and to ensure its longevity for our children and grandchildren and many generations to come.

Today's hearing focuses on several ways in which Congress can play a role in preserving and reforming Social Security. One perspective would provide "guarantee certificates" to every Social Security beneficiary assuring that during their lifetime, they will receive the full-range of benefits promised them.

I know these promises have been made before. This promise was renewed when Congress voted for a Social Security lock box five times. However, a sagging economy, our war against terrorism, and the dissolving budget surplus jeopardize the future of Social Security. I am committed to working with my colleagues in Congress to bring Social Security on the right track, but I am highly skeptical of legislation which would provide "guarantee certificates" to beneficiaries.

The best guarantee we can provide is to make hard choices, realistically look at our budgetary priorities, and fix Social Security for good.

The legislative proposals that are before the subcommittee today really lead us to reforms to privatize Social Security. I firmly oppose any attempt to create individual accounts, to invest all Social Security funds in the stock market, or any other plan that would jeopardize the long-term solvency of this program.

Americans have worked too hard to see their retirement funds squandered on a plan that is dependent upon the whims of stock market. Instead we should continue to invest in treasury bonds and invest a small portion of the trust fund—and not individual accounts, in a stock fund controlled by an independent body, like the Public Employees Retirement System in my home state of California.

I know from personal experience. After carefully researching the stock in a company called MPIX, I purchased a number of shares. I read how this technology packaging company had contracts around the world and had agreements with companies like IBM. My research and educated investment turned sour. The agreements were broken and MPIX is no longer listed on the NASDAQ. If I had counted on this investment to provide me with retirement security, I would need to work after I was already dead. I will not let this type of investing mishap keep millions of Americans from financial security.

Plans to privatize Social Security would drain needed resources from the Trust Fund, threatening benefit payments to retirees, the disabled, and survivors. The leading plan proposed by the President's commission would drain $1.5 trillion for the Trust Funds in just the next 10 years.

Privatization requires cuts in guaranteed Social Security benefits. The President's Social Security commission recommended a privatization plan that cuts benefits for future retirees by up to 46 percent.

Women rely heavily on Social Security as a source of income during their elder years. 27 percent of women over age 65 count on Social Security for 90 percent of their income. Plans to privatize Social Security would risk the stability that currently exists: guaranteed, lifetime, recession-proof benefits, the progressive benefit structure, and protections to spouses and elderly widows.

Privatization also threatens disability and survivor protections. Nearly one-third of beneficiaries receive income from its disability and survivor components. Privatization plans, like those recommended by the President's Social Security commission, would cut disability benefits to help pay for the cost of the private accounts.

These recommendations also bar access to the accounts prior to retirement age. This action greatly harms the disabled and survivors by reducing benefits and providing no money from the accounts to cushion the loss.

This is not the way Congress should approach Social Security reform. It violates every promise we have made to the American people, and would certainly not stay true to any "guarantee certificates." We need to look very carefully at the financial future of Social Security and keep our promises.

Thank you.