

SECOND IN A SERIES OF SUBCOMMITTEE
HEARINGS ON PROTECTING
AND STRENGTHENING SOCIAL SECURITY

HEARING
BEFORE THE
SUBCOMMITTEE ON SOCIAL SECURITY
OF THE
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

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**SECOND IN A SERIES OF SUBCOMMITTEE
HEARINGS ON PROTECTING AND
STRENGTHENING SOCIAL SECURITY**

TUESDAY, MAY 24, 2005

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

The Subcommittee met, pursuant to notice, at 2:05 p.m., in room B-318, Rayburn House Office Building, Hon. Jim McCrery (Chairman of the Subcommittee) presiding.

[The advisory announcing the hearing follows:]

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS
SUBCOMMITTEE ON SOCIAL SECURITY

FOR IMMEDIATE RELEASE
May 24, 2005
No. SS-2

CONTACT: (202) 225-9263

McCrery Announces Second in a Series of Subcommittee Hearings on Protecting and Strengthening Social Security

Congressman Jim McCrery (R-LA), Chairman, Subcommittee on Social Security of the Committee on Ways and Means, today announced that the Subcommittee will hold the second in a series of hearings on protecting and strengthening Social Security. This hearing will examine how the Social Security Trustees project the financial outlook for Social Security under current law. **The hearing will take place on Tuesday, May 24, 2005, in room B-318 Rayburn House Office Building, beginning at 2:00 p.m.**

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

BACKGROUND:

The Social Security Act (P.L. 74-273) requires the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds to report to Congress each year on the financial and actuarial status of the trust funds. In the 2005 Annual Report to Congress, the Trustees announced that in 2017 benefit payments will exceed revenue from payroll tax collections and the taxation of benefits, and that in 2041 the Social Security Trust Funds will be exhausted. The gap between promised benefits and revenues will continue to grow after 2041 and by 2079 the Trustees estimate that promised benefit payments will exceed revenues by almost 2 percent of gross domestic product.

In order to make their projections the Trustees rely on a number of demographic and economic assumptions including the fertility rate, the rate of decline in mortality, the future real earnings growth, real interest rate, the inflation rate and the unemployment rate. Under these projections, there is little doubt that the Social Security program will become insolvent.

In announcing the hearing, Chairman McCrery stated: "As the Subcommittee considers options to protect and strengthen Social Security, this hearing provides the opportunity for Members of Congress and the public to learn more about what drives the financial condition of the program."

FOCUS OF THE HEARING:

The Subcommittee will examine the financial outlook of Social Security under current law as determined by the Social Security Trustees, as well as how the Trustees make their assumptions.

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Please Note: Any person(s) and/or organization(s) wishing to submit for the hearing record must follow the appropriate link on the hearing page of the Committee website and complete the informational forms. From the Committee homepage, <http://waysandmeans.house.gov>, select "109th Congress" from the menu entitled, "Hearing Archives" (<http://waysandmeans.house.gov/Hearings.asp?congress=17>). Select the hearing for which you would like to submit, and click on the link entitled, "Click here to provide a submission for the record." Once you have followed the on-line instructions, completing all informational forms and clicking "submit" on the final page, an email will be sent to the address which you supply confirming your interest in providing a submission for the record. You **MUST REPLY** to the email and **ATTACH** your submission as a Word or WordPerfect document, in compliance with the formatting requirements listed below, by close of business Tuesday, February 22, 2005. **Finally**, please note that due to the change in House mail policy, the U.S. Capitol Police will refuse sealed-package deliveries to all House Office Buildings. For questions, or if you encounter technical problems, please call (202) 225-1721.

FORMATTING REQUIREMENTS:

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

1. All submissions and supplementary materials must be provided in Word or WordPerfect format and **MUST NOT** exceed a total of 10 pages, including attachments. Witnesses and submitters are advised that the Committee relies on electronic submissions for printing the official hearing record.

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

3. All submissions must include a list of all clients, persons, and/or organizations on whose behalf the witness appears. A supplemental sheet must accompany each submission listing the name, company, address, telephone and fax numbers of each witness.

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

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

Chairman MCCRERY. The meeting will come to order. Good afternoon, everyone. We have with us today Steve Goss, the Chief Actuary for the Social Security Administration (SSA), and Steve is going to talk to us today about the annual report of the Board of trustees and the history of that annual report, how we got to where we are today, and rather than going over an opening statement that basically reiterates that history, I am going to submit it for the record, so we can get the hearing underway expeditiously. Thank you, Mr. Goss, for coming. Mr. Levin, would you like to make opening remarks?

[The opening statement of Chairman McCrery follows:]

Opening Statement of The Honorable Jim McCreery, Chairman, and a Representative in Congress from the State of Louisiana

Good afternoon. Today marks our second in a series of Subcommittee hearings on protecting and strengthening Social Security.

Today, we will hear from Stephen Goss, the Chief Actuary of the Social Security Administration. Mr. Goss will discuss how the Social Security Trustees project the financial outlook for Social Security under current law.

The Annual Report of the Board of Trustees has a history dating back to the early years of the Social Security program. When President Franklin D. Roosevelt signed the Social Security Act into law, an old-age reserve account was created. In 1939, this account was replaced by the Federal Old-Age and Survivors Insurance Trust Fund. At the same time a Board of Trustees, made up of the Secretary of the Treasury, Secretary of Labor and the Chairman of the Social Security Board, were charged with oversight of the Trust Fund.

In 1941, the Trustees began the practice of issuing an Annual Report. Since then, the Annual Report has served as an essential road map to guide lawmakers, policy experts and the public in understanding the costs of the program, the revenues dedicated to its financing and the meaning and operation of the trust funds. The Trustees also provide information on demographic, economic and other factors affecting the program's finances.

In recent decades, the Trustees' Report has served as an early warning system to let Congress know when Social Security's finances are headed toward trouble. The Trustees' Reports gave several years' warning prior to the Congress' enactment of the Social Security Amendments of 1977 and 1983, two pieces of legislation that attempted to address Social Security's long-term under-funding.

The Trustees Report has been sounding alarm bells once again. The Subcommittee welcomes the opportunity to delve into the complex and critical messages from the Social Security Trustees. It is our responsibility to be fully informed about the trends driving Social Security toward insolvency. Lawmakers must not wait until a crisis is upon us before Congress acts. Our job is to build a firm financial foundation for Social Security's future based upon the facts.

Mr. LEVIN. Thank you. Very briefly, Mr. Chairman. I join you in welcoming Mr. Goss. Your office has been known for its tradition of fairness and high quality analysis and independence, and you surely have been characterized accordingly. The transparency and the integrity of your office is really critical, as well as the availability of neutral and confidential consultation. We also know that you have the responsibility, when asked, to do actuarial analyses of various plans to strengthen or replace Social Security, and that you do so with immense intelligence and integrity, and we much appreciate that. As we delve further into these issues and go into further, deeper waters, your analyses will be important to us. So, thank you. I look forward to your testimony.

Chairman MCCRERY. Thank you, Mr. Levin. Steve, why don't you begin. We are not going to put you on the clock. If you go over by a little bit, that will be fine. We would appreciate your summarizing your written testimony.

**STATEMENT OF STEPHEN C. GOSS, CHIEF ACTUARY,
SOCIAL SECURITY ADMINISTRATION**

Mr. GOSS. Thank you very much, Chairman McCreery, Ranking Member Levin, and Members of the Subcommittee here. Thank you very much for this opportunity to come and talk to you today about the Social Security Trustees Reports and the future financial status of the Social Security program.

The Annual Reports from the Board of Trustees to the Congress on the financial condition of the Old-Age, Survivors, and Disability

Insurance (OASDI) program have been prepared continuously since 1941. These reports are required by the law, and they are required to include an assessment of the actuarial status of the trust funds. The Office of the Actuary, which I am proud to be a Member of at this point, at the SSA prepared the projections used in these reports annually as well as projections of the effects of proposals, as Mr. Levin mentioned, and we have done so continuously since the inception of the program in 1935. The office has always operated on a non-partisan basis, providing objective estimates to the trustees, the Administration, and the Congress.

The 2005 Trustees Report, which was recently submitted to the Congress, in that report the intermediate assumptions indicate that the annual excess of tax income over the cost of the program will begin to decline in 2009 and that in 2017 the cost will then exceed the tax income from that point forward. At that point the accumulated trust fund assets projected will be about \$2.4 trillion in present value and will begin to be used to augment tax collections in order to pay full benefits as scheduled on a timely basis. While there is no question that these securities will be redeemed, as is now being the case for the Medicare Trust Fund, this redemption will require the Federal Government to increase taxes, to lower other expenditures, or to issue publicly held debt in amounts equal to the net redemptions by the trust funds at that time.

If no changes are made, it is projected that the combined trust fund assets would become exhausted in 2041 under the Trustees' intermediate assumptions and the program would no longer at that point be able to fully pay benefits scheduled in current law on a timely basis. Instead, in 2041, we would be able to pay benefits equal to about 74 percent of what has been scheduled under current law. After 2041, program cost is projected to continue growing faster than tax income. By 2079, only about 68 percent of scheduled benefits are expected to be payable if no changes are made. On page two we have a graph showing the trust fund projections under current law, with the bold line being under the intermediate assumptions, and we also have a high-cost and low-cost alternative based on varying assumptions.

Changes from the 2004 to the 2005 Trustees Report, again, recently issued, were relatively small. No changes in the principal ultimate economic or demographic assumptions were made. The estimates that the years of expected trust fund exhaustion and the year of the cost beginning first to exceed tax income are both projected now to be 1 year earlier, and this is largely the result of unexpectedly high growth in prices in the last couple of years that was not matched by similarly higher than expected increases in the average earnings level. This effect resulted in lower annual program cash flow surpluses or higher cash flow deficits through the year 2024 in our projections. On page three of the written testimony, you will see a graph that sort of illustrates this. The solid line is where we are in the 2005 report on these cash flow balances, and the dashed line is where we were in last year's Trustees Report. You can see that through 2024 we are a little bit worse off, but after that we are actually a little bit better off.

For these years after 2024, other changes, principally in the methods we use for the projections, resulted in this somewhat

lower annual cash flow deficit for the program. For the year 2078, which was the 75th year in last year's Trustees Report, the estimated annual cash flow deficit was reduced from 5.91 percent of taxable payroll down to 5.66 percent of taxable payroll—not a large change, but a small change in a good direction.

Annual balances and trust fund asset levels provide, we think, the most important measures of the future status of the Social Security program for the analysis that we do and that we believe will be important to policymakers as they look into the future. The actuarial deficit expresses the magnitude of expected net future shortfalls on a summarized basis over the upcoming 75-year projection period. Normally, this actuarial deficit is expected to increase from one Trustees Report to the next by about 0.07 percent of payroll solely due to the shift in the 75-year period from one report to the next. In fact, this actuarial deficit increased from 1.89 to only 1.92 percent, an increase of 0.03 percent, of payroll for the 2005 report, consistent with the small reduction in projected cash flow deficits for 2025 and later. The 75-year net shortfall may also be expressed as a percentage of the Gross Domestic Product (GDP) over the entire period. For the 2005 report, the net shortfall as a percentage of GDP is projected to be 0.6 percent, a little less than one percent, of GDP over the entire 75-year period. Again, this is very slightly lower than was projected in the 2004 report.

Finally, the shortfall can be viewed from the view of an aggregate dollar amount expressed in present value discounted dollars back to the beginning of the given valuation period, in this case, January 1, 2005. In this form, the net shortfall over the next 75 years is estimated in the most recent report at \$4 trillion in present value. This value tends to be measured as a larger amount each year simply due to the advancing valuation date, even when the annual shortfalls are not changed. Expressing the unfunded obligation as a percentage of taxable payroll or GDP we think better illustrates the magnitude of the changes that will be needed, especially when we are looking from one Trustees Report to the next.

Assessing the actuarial status of the Social Security program involves more than just attaining solvency throughout the 75-year projection period. Sustainable solvency requires, in addition, that the projects level of trust fund assets be stable or rising as a percentage of the annual cost of the program at the end of the period. Meeting these criteria indicate that the program is expected to be solvent for the foreseeable future and that even if actual experience in future years varies from current assumptions, only relatively small modifications are likely to be needed to maintain adequate financing for the program. The Office of the Actuary has provided an assessment of the degree to which each comprehensive proposal that we have done estimates for achieves the criteria of sustainable solvency in our scoring starting in the middle nineties.

Projections of the future cost and income of Social Security are driven by a number of principal economic and demographic assumptions that are addressed in each year Trustees Report. Changes in the ultimate assumptions are made incrementally, as can be seen in Table C, which we attached at the end of the written statement. This provides the basic economic and demographic

assumptions utilized in Trustees Reports from 1976 all the way through 2005.

Maintaining consistent and objective assumptions for the Trustees Report has been aided by two important requirements imposed by the Congress in the law, by you all. First, the law requires the inclusion of two Public Trustees on the board, one effectively representing each major political party. This is in addition to our four Members of the Board of Trustees who are from the current Administration. The second requirement is, of course, that the Chief Actuary is required to provide a statement included in the report at the back of it indicating whether or not the assumptions and methods used in the report are individually and collectively reasonable.

Now, in the most recent report, the principal economic assumptions include real-wage and productivity growth, price growth, interest rate, and employment rate assumptions. However, due to the indexing and other features of Social Security, program cost is not greatly sensitive to variation in these economic assumptions, not as greatly sensitive as it is to the changes possible in principal demographic assumptions.

Primary among the demographic assumptions which are really having an effect on our projections into the future are birth rates. In fact, birth rates, I would suggest, are the principal reason that the cost of the Social Security program as a percentage of taxable payroll will shift to a new higher level over the next 25 years. The total fertility rate or average number of children that a woman will have throughout the full lifetime was about 3.3 children per woman during the Baby Boom years 1946 through 1965. However, by 1972, just seven years later, the total fertility rate dropped to just two children per woman and has stayed at about that level ever since. It was actually lower for a while and is right back at about 2 now. The Trustees' ultimate assumption now is to be right at about two—actually, 1.95 children on average going into the future.

On page six of the handout, we have a picture of the total fertility rate shown starting in 1940, where it has gone with the peak of the Baby Boom, down to the lower levels and where we have it going into the future. Now, the shift in the total fertility rate is directly responsible for the shift in the much discussed ratio of workers to beneficiaries that is projected to occur between 2010 and 2030. Also on page six of the written testimony, we show the second graph toward the bottom of the page, where you can see the ratio of covered workers to OASDI beneficiaries. This ratio has remained constant at about 3.3 workers per beneficiary ever since 1975 when the Social Security program first really matured in its coverage of the population. Had the total fertility rate stayed at three or higher, the current 12.4-percent payroll tax rate would, in fact, be adequate to finance currently scheduled benefits. Because of the shift in birth rates, however, 30 years ago and remaining at the lower level, the ratio of workers to beneficiaries will drop to 2.2 by 2030 from the current 3.3 level, and to 2.0 by 2040. It is this shift that makes the current law 12.4-percent payroll tax rate insufficient to fully finance the scheduled benefits in the long run.

Now, the downward shift in projected worker-to-beneficiary ratio between 2010 and 2030 also causes the upward shift in the Social

Security cost rate as show on page seven in the graph that we have of the cost rate. Again, we show Alternative One and Alternative Three to give you some sort of sense of the range of uncertainty around these estimates. The projected net shortfall in financing for Social Security over the next 75 years could be met by an average reduction in benefits over the entire period of about 13 percent or by an average increase in revenue to the system of about 15 percent. The timing of when the shortfalls occur and when we would address them is very important.

The annual cash flow shortfalls begin in 2017. They become most critical by the time of trust fund exhaustion. By the end of the 75-year period, 2079, the projected shortfall is expected under intermediate assumptions to be 5.7 percent of taxable payroll. To meet this annual shortfall in 2079 would require benefits that are nearly one-third lower than are currently scheduled, revenue that is nearly 50 percent higher than currently scheduled, or some combination of the two. Greatly reducing or eliminating this annual shortfall for 2079 will be necessary if sustainable solvency, as defined in the Trustees Report, is to be achieved.

Finally, I just want to conclude by suggesting that, again, the Trustees Reports required by law have played a fundamental role in informing the Congress and the Administration of the actuarial status of the program and the magnitude of changes that may be needed for the future. The Office of the Actuary has been, and will continue to be, available to the Congress, to each of you, and to the Administration for objective and non-partisan estimates both of the current status of the program and for possible changes to the Social Security program. Thank you very much for the opportunity to present this testimony, and I look very much forward to any and all questions. Thank you.

[The prepared statement of Mr. Goss follows:]

Statement of Stephen C. Goss, Chief Actuary, Social Security Administration

Chairman McCrery, ranking member Levin, and members of the subcommittee, thank you very much for the opportunity to talk with you today about the Social Security Trustees Reports and the future financial status of the Social Security program.

Annual Reports from the Board of Trustees to the Congress on the financial condition of the Old-Age, Survivors, and Disability Insurance program have been prepared continuously starting with 1941. These reports are required by law to include an assessment of the "actuarial status" of the trust funds. This assessment has been used by the Congress numerous times since 1941 as the basis for modifying the program to either alter the scope and nature of the program, or to improve the financial status of the program.

The Office of the Actuary at the Social Security Administration prepares the projections used in these reports as well as projections of the effects of proposals to change the program, and has done so continuously since the inception of the program in 1935. The Office has always operated on a non-partisan basis providing objective estimates to the Trustees, the Administration, and the Congress. As you know, while the Office of the Actuary resides within the Social Security Administration, it operates on an independent basis, particularly regarding work for the Congress, including this Subcommittee, the full Ways and Means Committee, and the Senate Finance Committee. Our work for the Congress is always done on a confidential basis during the development of a proposal for changing Social Security, and remains confidential unless and until the requestor is prepared to go public with the proposal. Our current Commissioner, Jo Anne Barnhart, as well as former Commissioner Kenneth Apfel have strongly supported the independence of the Of-

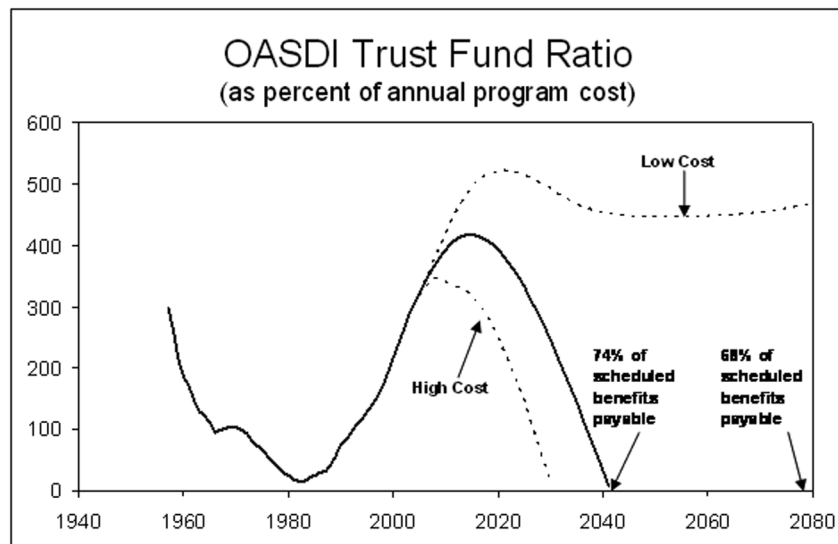
face of the Actuary, well understanding the importance of this independence to the credibility of our work.

Today I would like to speak about three aspects of our analysis of the actuarial status of the Social Security program under current law for the Trustees Report. These are (1) the basic status of financing and solvency over the 75-year long-range period as reported in the 2005 Trustees Report and changes from the prior report, (2) the principal assumptions used in the projections and how they are driving the projected financial status, and (3) some of the possible legislative changes that are available to improve the actuarial status of the program.

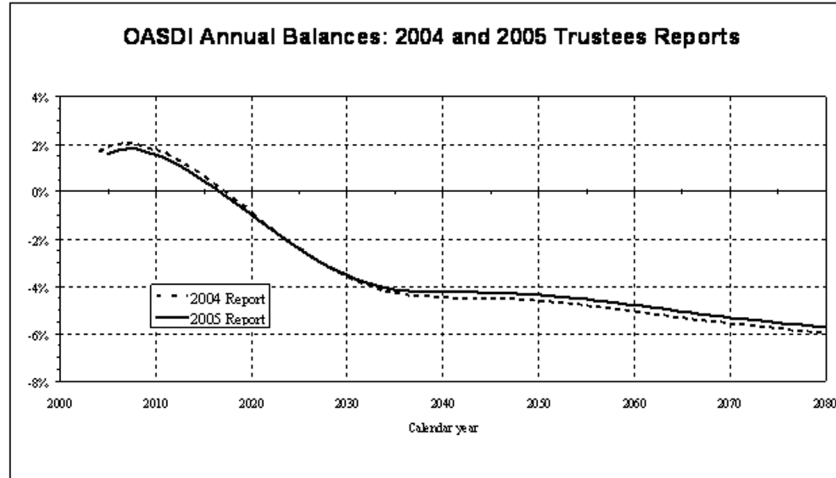
(1) Where We Are—The Basic Actuarial Status of the Social Security Program

In the 2005 Trustees Report, the intermediate projections indicate that the annual excess of tax income over program cost will begin to decline in 2009, and in 2017 cost will exceed tax income. At that point the accumulated trust fund assets of about \$2.4 trillion in present value will begin to be used to augment tax income so that benefits scheduled in current law will continue to be paid in full. These assets are, by law, invested wholly in securities backed by the full faith and credit of the United States Government, and have always been redeemed when needed. While there is no question that these securities will be redeemed when needed, this redemption will require the Federal Government to increase taxes, lower other expenditures, or issue publicly-held debt in amounts equal to the net redemptions by the trust funds.

If no changes are made, it is projected that the combined trust fund assets would become exhausted in 2041 and the program would no longer be considered to be solvent. This means that we would no longer be able to fully pay benefits scheduled in current law on a timely basis. Instead, we would be able to provide 74 percent of scheduled benefits with continuing tax revenues. After 2041, program cost is projected to continue growing faster than tax income. By 2079, 68 percent of scheduled benefits are expected to be payable if no changes are made.



Changes from the 2004 to the 2005 Trustees Reports were small. No changes in the principal economic or demographic ultimate assumptions were made. The estimate that the years of expected trust fund exhaustion and cost exceeding tax income will be one year sooner was largely the result of unexpectedly high growth in prices that was not matched by a similar unexpected increase in average earnings levels. This effect resulted in lower annual program cash-flow surpluses or higher deficits through 2024.



However, for years after 2024, other changes, principally in the methods we use for the projections resulted in somewhat lower annual cash-flow deficits for the program. For the year 2078, the estimated annual cash-flow deficit was reduced from 5.91 to 5.66 percent of taxable payroll. Thus, on balance, the long-range actuarial status of the Social Security program is essentially unchanged in the 2005 Trustees Report.

This change may also be seen in the estimates for the actuarial deficit and other measures of the unfunded obligation for the program over the 75-year long-range valuation period. The actuarial deficit expresses the magnitude of expected net future shortfalls over the entire period as a percentage of the taxable payroll over the entire period. Normally this actuarial deficit is expected to increase by 0.07 percent of payroll solely due to the shift in the 75-year period from one report to the next. In fact, the actuarial deficit increased from 1.89 to only 1.92 percent of payroll for the 2005 Report, consistent with the small reduction in projected cash-flow deficits for 2025 and later. The 75-year net shortfall may also be expressed as a percentage of the GDP over the entire period. For the 2005 Report, the net shortfall as a percent of GDP is projected at 0.6 percent of GDP over the period, again slightly lower than projected for the 2004 Report.

Finally, the shortfall can also be viewed in the form of an aggregate dollar amount in present discounted value to the beginning of the valuation period, or January 1, 2005. In this form, the net shortfall over the next 75 years is estimated at \$4 trillion present value dollars. This amount is larger than the estimated unfunded obligation of \$3.7 trillion present value dollars reported in the 2004 Trustees Report largely because the valuation date, that is the date to which net shortfalls are discounted, is one year later in time. By discounting the annual shortfalls for each future year to 2005 rather than to 2004, the present value amount is measured as 5 to 6 percent greater in the new report. What is critical to note in these measures of unfunded obligation is that they represent the net shortfall for the 75-year period as a whole, and thus must be met with changes that will be applied over the 75-year period as a whole. Expressing the unfunded obligation as a percent of taxable payroll or GDP better illustrates the magnitude of the changes that will be needed.

It should also be noted that in assessing the actuarial status of the Social Security program, more than just attaining solvency throughout the 75-year projection period is considered. When this first goal is met, an additional criterion for achieving "sustainable solvency" should be considered. This additional requirement asks that the level of the trust fund assets be projected to be stable or rising as a percent of annual program cost at the end of the period. When both 75-year solvency and this additional requirement are met, the program may be expected to continue to be solvent for the foreseeable future, under the assumptions used in the projection. Meeting these criteria further suggests that even if actual experience in the future varies from the assumptions to a degree, only small modifications are likely to be needed to maintain adequate financing for the program.

The Office of the Actuary has provided an assessment of the degree to which each comprehensive proposal achieves the criteria for sustainable solvency in scoring

starting in the middle 1990s. Providing this additional assessment has helped to lead to the development of numerous proposals that meet the criteria for sustainable solvency under the Trustees intermediate assumptions over the last 10 years. The Trustees Reports have also referred to the criteria for sustainable solvency since 1999.

(2) The Principal Assumptions for the Trustees Report

Projections of future cost and income for Social Security are driven by a number of principal economic and demographic assumptions that are selected by the Trustees each year. The process for this selection each year starts with analysis and recommendations provided to the Trustees by the Office of the Actuary. This analysis and the recommendations are discussed extensively and final assumptions are adopted by the Trustees, generally very close to those recommended by the actuaries. In fact, this process has resulted in remarkably consistent assumptions over the years, and across Administrations. Changes in ultimate assumptions are made incrementally and only after evidence supporting change is fully discussed and analyzed. See Table C, attached.

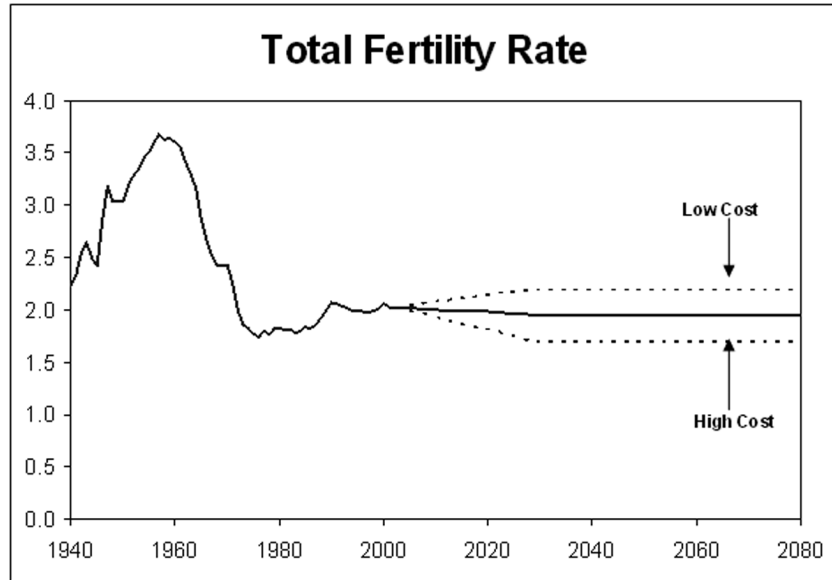
Maintaining consistent and objective assumptions for the Trustees Report has been aided by two important requirements imposed by the Congress in the law. First, the law requires the inclusion of two Public Trustees on the Board, one effectively representing each major political party. Over the years, the Public Trustees have always worked together and have had a major and positive influence on the Board. The second requirement is that the Chief Actuary is required to provide a statement included in the report indicating whether the assumptions and methods used are individually and collectively reasonable. I am happy to report that my statement in the 2005 Report indicated that the assumptions and methods are reasonable.

The principal economic assumptions include real-wage and productivity growth assumptions, price growth, interest rate, and employment rate assumptions. Productivity growth provides the basis for average wage growth. The intermediate assumptions include an ultimate assumption of 1.6 percent average annual growth in total economy productivity, equal to the average growth rate over the last four complete economic cycles, from 1966 to 2000. The average annual real growth rate in the average wage was 1.15 percent over the same period, also very close to the ultimate real wage differential of 1.1 percent. The ultimate real interest assumption on long-term Treasury bonds is assumed to average 3 percent, or slightly below the average yield of 3.4 percent over the last four complete economic cycles.

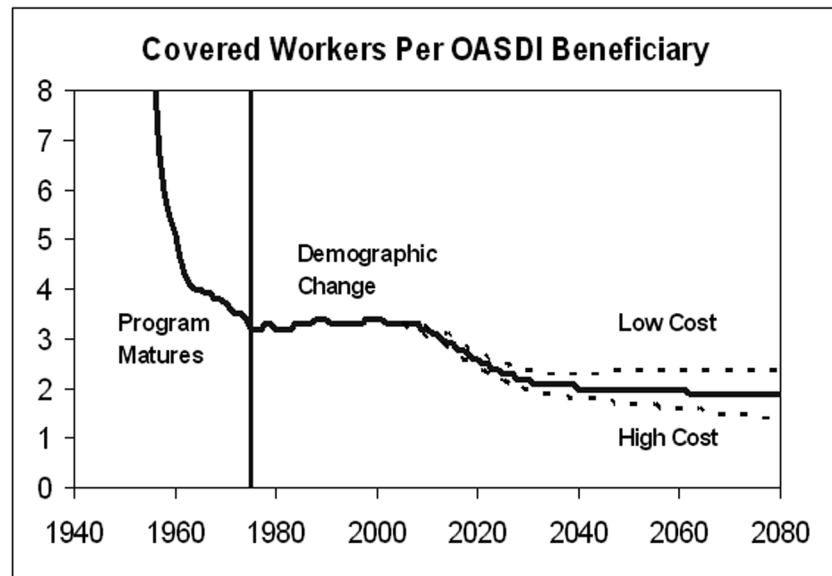
However, due to the indexing and other features of Social Security, program cost is not greatly sensitive to variation in economic assumptions. The major effects on program cost relative to the base of taxable earnings are in the demographic changes that confront the program.

The principal demographic assumptions include birth rates, death rates, and immigration. The ultimate rate of decline in death rates for individuals over age 65 is about the same as for the average of the last century, and considerably faster than for the last 20 years. Immigration is assumed to be at roughly the average level over the last 20 years or so.

But birth rates are the principal reason that the cost of the Social Security program as a percentage of the taxable payroll will shift to a new higher level over the next 25 years. The "total fertility rate" or the average number of children women have was about 3.3 children per woman during the baby-boom years from 1946 through 1965. By 1972, however, the total fertility rate dropped to 2 children per woman and has stayed at about that level ever since. The ultimate assumption is for an average total fertility rate of 1.95 for the future.

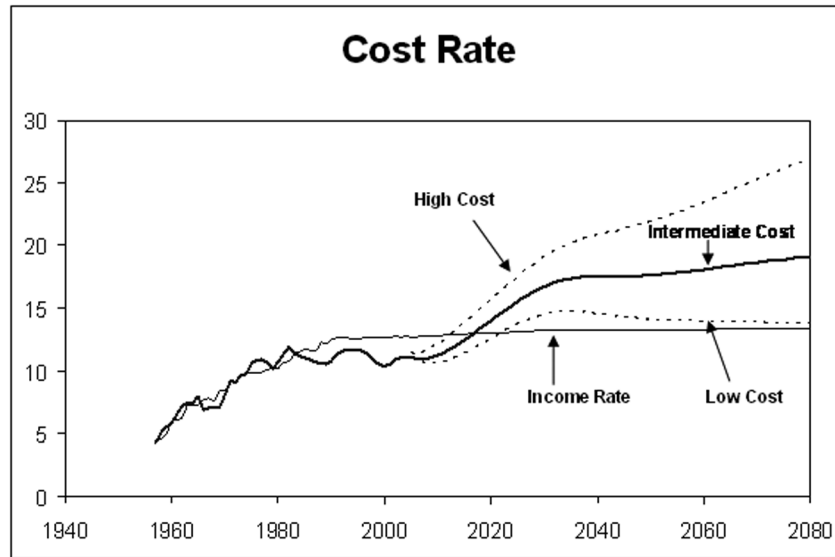


This shift in the total fertility rate is directly responsible for the shift in the ratio of workers to beneficiaries that is projected to occur between about 2010 and 2030.



This ratio has remained constant at about 3.3 workers per beneficiary since 1975, when the Social Security program matured in its coverage of the population. Had the total fertility rate stayed at 3 or higher, the current 12.4 percent payroll tax rate would be adequate to finance currently scheduled benefits and we would not be discussing future shortfalls. But due to the shift in birth rates over 30 years ago, we will see the ratio of workers to beneficiaries drop to 2.2 by 2030 and 2.0 by 2040. It is this shift that makes the current law 12.4 percent tax rate insufficient to fully finance the currently scheduled benefits in the long run.

Directly reflecting the decline in the projected worker to beneficiary ratio between 2010 and 2030, is the increase in the Social Security cost rate, as a percent of taxable payroll, over the same period. During this period the cost rate is projected to shift from a level that is now well below the current tax rate of 12.4 percent to a level that is well above it.



Continuing but much more gradual decreases in the worker to beneficiary ratio and increases in the cost rate are projected after 2030 based on expected future increases in life expectancy. But these are modest in comparison with the shift in the cost rate that will result from the decline in birth rates after 1965.

(3) Possible Legislative Changes to Improve the Actuarial Status of Social Security

The projected net shortfall in financing for Social Security over the next 75 years could be met by an average reduction in benefits of 13 percent or an average increase in tax revenue of 15 percent over the period. But the timing of the expected shortfalls is important. Most proposals being considered would confirm the pay-as-you-go nature of the financing of Social Security by targeting changes to years after trust fund exhaustion in amounts roughly equal to the projected annual shortfalls.

As mentioned earlier, the annual cash-flow shortfall for the year 2079 is projected to be about 5.7 percent of taxable payroll. To meet this annual shortfall in 2079 would require benefits that were then nearly one third lower than are currently scheduled, or revenue that is nearly 50 percent higher than currently scheduled, or some combination of the two. Greatly reducing or eliminating this annual shortfall for 2079 will be necessary if sustainable solvency is to be achieved.

Several changes to lower scheduled benefits, by slowing the projected growth, have been considered. These include changes in the normal retirement age, and modifications of the basic benefit formula. Benefit formula changes include general "price indexing" of benefits across future generations, and "progressive indexing" which would provide for larger percentage reductions for higher earners, thus making the current benefit formula more progressive.

Potential changes to increase revenue for Social Security in the future include increasing the taxable maximum amount, increasing taxation of benefits, and increasing payroll tax rates. Additional revenue could also be generated by modifying the pay-as-you-go nature of Social Security financing to include more substantial advance funding.

Many combinations of the provisions mentioned above, as well as a large number of other possible provisions could restore long-range solvency, and sustainable solvency for the Social Security program. Changes will be needed well before the expected date of trust fund exhaustion in 2041. By enacting needed changes sooner, we will have more options to consider, be able to phase changes in more gradually, and give affected individuals more advance notice.

Conclusion

The Trustees Reports required by law have played a fundamental role in informing the Congress and the Administration of the actuarial status of the program, and the magnitude of changes that may be needed for the future. The Office of the Actuary has been and will continue to be available to the Congress and the Administration for objective and non-partisan estimates both of the current status of the program, but also for possible changes to Social Security.

Thank you very much for the opportunity to present these remarks. I look forward to trying to answer any questions that you may have.

Chairman MCCREY. Thank you, Mr. Goss, and I certainly want to echo Mr. Levin's comments that we all appreciate the job that you do and the way in which you present the numbers that you come up with. President Bush has emphasized that the need to strengthen Social Security should be done—or we should achieve that strengthening of Social Security in a sustainable way. “Sustainable solvency” is the term that he has used. Would you describe what that means? What do we mean by “sustainable solvency” as opposed to some other kind of solvency?

Mr. GOSS. Thank you very much, Chairman McCrery. The example that I think comes to mind for all of us are really the amendments back in 1983, the most recent comprehensive amendments that we had under Social Security. Those amendments did step number one of sustainable solvency. They did result in projections and changes that resulted in projections where we would expect to have the trust funds be solvent and all scheduled benefits to be payable for the 75 years hence from that point. However, they were done in such a way that the level of the assets, the level of the reserves in the program, were to be built up fairly rapidly and then to be spent down toward the end, and just beyond the 75-year period, they would have been exhausted. In fact, we really have seen the reality of that come true now.

So, the amendments that were enacted at that time did achieve step number one, solvency for 75 years in the projection, but they did not achieve sustainable solvency. Sustainable solvency, the way we really thought of this and the way we initially developed this working with the 1994 to 1996 Advisory Council, was really addressing exactly this situation that happened with the 1983 amendments. We wanted to be sure that we would be in the position to provide estimates that would inform our policymakers as to whether or not they were ending up with something that would be a 1983 solution or whether they would have a solution that would tend to have more legs, a solution that would be more stable under circumstances in the future. We know that if we achieve solvency for 75 years but have our trust fund ratios at the end not dropping rapidly, like they were as a result of the 1983 amendments—and that was included in our projections at the time. The 1983 Trustees Report shows this. If, in fact, we have a stable, rising trust fund ratio, that is, a stable, rising level of assets in the trust fund as a percentage of the annual cost of the program, then we can be reasonably well assured that we will for the foreseeable future continue to have solvency for Social Security. We will have no absolute assurance because, clearly, assumptions today about what happens over the next 20, 30, 50, 75 years may not turn out to be exactly

true. This is why we sort of give a range of estimates and make stochastic projections also.

Because there is a principal focus on the intermediate assumptions—we understand that—we feel that if we end up with a solution the next time we enact changes to Social Security that does meet the sustainable solvency criteria, stable levels of trust fund assets in the future, we at least will then be in a position where, if reality turns out to be somewhat different from the assumptions, we will not veer greatly away from a sustainable path and only relatively small changes will be necessary.

Chairman MCCRERY. Now, the reason we talk about a 75-year solvency is that that is in the law, isn't it? The trustees are required to report on a 75-year window on the health of the system, so to speak, over a 75-year window?

Mr. GOSS. Actually, Chairman McCrery, the 75 years is really sort of an interpretation of the law. The law actually has something like three different specific requirements the trustees must report on, one of which is to report on the actuarial status of the program. That has been interpreted in many ways over the years for the last something like 30 to 40—about the last 40 years, it has been interpreted very consistently as projecting a 75-year window of expectation.

The rationale for that has been, for a long time, arguments along the lines of the very youngest people we have involved in the system, the very youngest workers, that is approximately the remaining amount of time that they will have to live. Another, I think, good argument for using an open window of something like 75 years is that virtually any kind of proposal we can imagine for modifying Social Security, that would be sufficient time to show the full, mature, phased-in effects of it so that we would be able to see exactly what we are facing with any changes in law.

Chairman MCCRERY. What you are saying today is that we can manipulate that 75-year window in a way on paper to achieve solvency over the 75 years, but if the lines are going the wrong way, the income and the outgo lines are going the wrong way at the end of that 75-year period, it is fairly apparent that solvency won't be achieved past that window, and that is what we did in 1983?

Mr. GOSS. That is exactly right. I believe at the time—and I was there and involved to a degree with the 1983 amendments. I think the attitude to some extent then was 75 years of solvency was pretty good, especially because we were really on the door of becoming not able to pay full benefits on a scheduled basis at that time, within a couple of months. So, they felt 75 years was pretty good, and I think the general sense that we have in working with Members of Congress and commissions since the mid-nineties, though, is that the next time around there is a desire to perhaps go for more than that, go for more than just having a 75-year window of projected solvency, but also to have it have the stable financing toward the end of the period.

Chairman MCCRERY. I have said in this Committee room that I think the best way to put Social Security on that sustainable solvency path is to prefund some of those out-year obligations so we know we have the money in the bank, so to speak, and we are not just counting it on paper. Clearly, President Bush has proposed

personal accounts to achieve some of that prefunding that I have talked about. As we prefund those obligations, there is a lot of talk about, well, there is a transition cost, short-term transition cost. Could you explain what we mean by transition costs, and whether that is good or bad, or just how—from an economic or fiscal standpoint, what does it mean?

Mr. GOSS. Transition costs are one of the concepts that we have probably struggled with more than almost any other, because when you talk about a transition, it is from one state to another state, and when people talk about transition costs, it is not clear we are always talking about the same transition. I think, Chairman McCrery, what you are talking about here in the kind of transition is a transition of going from a basically pay-as-you-go system that we have now and moving toward a partially or more nearly fully advanced funded system. There are many ways of doing that, either by having advanced funding occurring within the trust funds, or occurring within the broader context of individual accounts. Regardless of which way one might want to go on this, obviously to move from a pay-as-you-go system, a current cost system, toward having some advanced funding, some extra money, has to be put on the table at some point.

In the work we did for the President's Commission on Social Security back in the 2001 era, it was clear that we addressed this. We even referred to the additional amounts of money that had to be put on the table as transition investments at that time. Basically, it is really just a question of the additional money that has to be put forth in order to create the advanced funding, whether it be in individual accounts or whether it be potentially in the trust funds. That is just a reality.

There are, unfortunately, a lot of other ways that one could look at transition costs. For instance, another possible way of looking at transition costs is going from the transition from the state of Social Security financing that we have now toward having a fully financed system in the future. We sometimes talk, for instance, about the \$4 trillion that we have for the 75-year period or the \$1.92 trillion shortfall, and eliminating those involve a kind of transition also. I believe the one that you are referring to is the one specifically toward the development of advanced funding, whether it be in individual accounts or through advanced funding of the trust funds.

Chairman MCCRERY. Really, even if we use personal accounts or if we were to do direct government investment, let's say, that we take all the surplus and instead of spending it on other things, we make a direct government investment in the stock market. Either way you have to come up with the cash today to do that. Isn't that just a way of recognizing the obligations that we already have, that we know we will have to pay at some point in the future?

Mr. GOSS. It is, and I think that is a very fair and appropriate way to put it. I would suggest there is even a little bit more to it than that in that we think in terms of there being a distinction between the obligations that we have going forward in Social Security, say this \$4 trillion unfunded obligation that we have, plus there are other obligations over and above that that are, in fact, actually funded. For instance, now we have the roughly \$1.8 tril-

lion of trust fund assets, which, of course, do require—when and if they need to be liquidated, the Federal Government has to come up with the money. Nonetheless, those two represent a liability on the Federal Government to the trust funds. Everybody agrees, the U.S. Department of the Treasury Secretary Snow agrees, that, of course, those obligations will be met. Those really are absolute commitments of money.

Should we move toward more advanced funding, especially in either the trust funds or in individual accounts, we have investment in private securities, those would represent, we feel, solid securities and investments in the same sense, which we cannot really say about the unfunded obligations of the Social Security program now.

Chairman MCCRERY. Right. Now, you mentioned pay-as-you-go, and I am going to ask—I just want you to repeat part of your testimony, and then I am going to turn it over to Mr. Levin. You talked about the pay-as-you-go system. That is what we have now, a pay-as-you-go system, which means current work force pays for the benefits of the current retiree population, and they pay for it through the payroll tax. Now, you said in 2079, if we make no changes in the system and it is still a pay-as-you-go system, that we would have to cut benefits—or outgo to equal income, by one-third or have a 50-percent increase in payroll taxes. Is that what you said?

Mr. GOSS. About a third reduction in the benefit payments or about a 50-percent increase in the revenue to the system, which could be in the form of payroll taxes or—

Chairman MCCRERY. Yes, let's assume it is payroll taxes. We are at 12.4 percent today, and you increase it by 50 percent, you are looking at roughly a 19-percent payroll tax.

Mr. GOSS. That is exactly right. Either one of those approaches would suffice. We could either lower the benefits to live within the 12.4 percent tax rate or raise the tax rate, or other sources of revenues, in order to provide the currently scheduled benefits. Therein really lies the choice that faces us.

Chairman MCCRERY. Okay. Thank you, Mr. Goss. Mr. Levin?

Mr. LEVIN. I would like to ask you a few questions about your report, and so I will just say this once. We will leave the debate to some other day. Now the term “prefunding” is being used, and essentially what that means under what the President has suggested—a combination of private accounts, of an offset, of the diversion of Social Security moneys—what all of that means is that over time for most people the guaranteed benefit is replaced. That is the implication. You can call it “strengthening” if you want. You can call a replacement “strengthening.” We think it is replacement. That is not exactly your domain, but I want everybody to understand what the idea of prefunding is when it is combined with private accounts and with the major offset that has been very much suggested. I will not get into the other aspects of it either in terms of the proposals for annuitizing, for limiting how the investments would be made. As you say, there are other ways to prefund that would not mean the replacement of the guaranteed benefit for most people. That is for another day.

I just think everybody should understand that language is sometimes descriptive, and I think sometimes really obscures what is

really being proposed. Let me just ask you, as you analyze proposals, in some cases you use an asterisk, do you, in your actuarial analysis?

Mr. GOSS. I am sorry. Could you repeat that last—

Mr. LEVIN. Or I can ask you another way. How do you handle it when a proposal has in it a major use of general funds to take care of any deficit within the other proposed funding plan? How do you handle that?

Mr. GOSS. Thank you very much. That is a wonderful question. In all of our analyses, as you will see the memoranda that we do, we have a number of different tables, and in these tables we attempt to look at what is happening as a result of any change that is put forth from more than one perspective. The initial perspective that we look at most fundamentally is what is happening to Social Security and the trust funds. From that point of view, if indeed we have a provision that says—in the law it specifies that there will be X amount or X percent of payroll or X percent of GDP, or some well-specified amount of money coming in from the general fund to the Treasury, as far as Social Security financing is concerned, that will look like a legitimate source of income. That will be something that we can score as speaking to the solvency of the Social Security program.

However, we also look at—and, again, there was a watershed event for us in the 1994 to 1996 Advisory Council. They asked us to do lots of things that we have maintained since. One of the things that we have been doing since then also is to provide additional tables for proposals that indicate the budget effects. If, for example, we have a proposal that calls for General Fund transfers to the Social Security program, in effect what we see in the budget effects is that such transfers from one part of the government to the other part of the government really do not show up as any change, unless and until those monies are actually utilized by the Social Security Trust Funds to spend it. So, to the extent that transfers allow the trust funds to persist longer by way of having the money come in and to pay benefits for a longer period of time, that actually would end up resulting in more expenditures under Social Security.

Mr. LEVIN. A number of the plans that you have analyzed call for the use of general funds to supplement the money that is earmarked for Social Security, isn't that true?

Mr. GOSS. That is true. A number of plans we have where there is a need for especially a temporary period, there is a General Fund transfer provision provided.

Mr. LEVIN. Another form of pay-as-you-go? Let me just point out one fact that I think is interesting here. On page seven, this ratio has remained constant at about 3.3 workers per beneficiary since 1975. So, you are saying that for 30 years that ratio has remained more or less the same. So, when people talk about 15 to one, which actually occurred before Social Security really went into full operation, they don't talk about the steadiness of the ratio since 1975. You say that is changing from here on in under your reports, mainly because of proposed or prospective changes in the fertility rate; right?

Mr. GOSS. Exactly. Actually, really, Representative Levin, it is principally because of the changes that have already occurred in fertility. There is a lag between the time in which we have births and when those births then rise to the level of reaching the age where they enter into the labor force. So, the seeds really of the impact of the lower birth rates that we had gradually coming in between 1965 and 1972 are well sown at this point.

Mr. LEVIN. In terms of 75 years, you make an assumption as to what the fertility rate will be; right?

Mr. GOSS. Exactly.

Mr. LEVIN. That we don't know.

Mr. GOSS. That we certainly do not know.

Mr. LEVIN. No.

Mr. GOSS. That is true with all of our assumptions, although there is a sufficient lag on the effect of birth rates in what happens in—

Mr. LEVIN. That is understood.

Mr. GOSS. —that we have a fairly good sense of what is likely to happen unless there is a dramatic change in birth rates in the future.

Mr. LEVIN. Okay. Thank you. My time is up.

Chairman MCCRERY. Mr. Goss, just a quick question: have you scored any proposals that contain personal accounts that do not cut benefits at all, and that achieve sustainable solvency?

Mr. GOSS. Let us see. We have provided estimates for a number of plans that would in effect provide a guarantee—

Chairman MCCRERY. Right.

Mr. GOSS. —that either benefits in the case of one—there are, in fact, I think as many three people on your panel who have plans that we have scored that would, in fact, provide a guarantee such that benefits would not in any case in the future fall below the level of present law scheduled benefits. All three of these plans do involve individual accounts. They do them through slightly different mechanisms.

Chairman MCCRERY. Do they achieve a sustainable solvency?

Mr. GOSS. All three of these achieve sustainable solvency.

Mr. LEVIN. Would you yield just for a second?

Chairman MCCRERY. Sure.

Mr. LEVIN. Just so the record is clear. Do all of them involve General Fund transfers?

Mr. GOSS. All of them involve to a varying degree fairly significant amounts of General Fund transfers.

Mr. LEVIN. Thank you.

Chairman MCCRERY. Thank you, Mr. Goss. Mr. Johnson?

Mr. JOHNSON OF TEXAS. Thank you, Mr. Chairman. I would say that probably General Fund transfers are going to be required whether we do anything or not. Based on your office's scoring a number of legislative proposals, which you just talked about that include personal accounts, would you agree that plans with personal accounts do achieve sustainable solvency, one. Would you explain how personal accounts strengthen Social Security's long-term financial outlook?

Mr. GOSS. Well, on the basis of any one single provision, whether it be changing the retirement age, or changing the tax rate, or

including individual accounts, we cannot say that a plan will necessarily achieve sustainable solvency. It really requires looking at the complete package of the provisions in a plan. We have been lucky enough to be able to work with Members of this Subcommittee and other Members actually in developing plans and generally speaking at least over the last decade the desire has been to move toward a plan that would not only achieve 75-year solvency, but also achieve sustainable solvency. With that goal in mind, we have a number of plans that actually have done that.

The way in which individual accounts or personal accounts per se really affect Social Security, it depends on the nature of the plan. We have some plans, for instance, which may have personal accounts financed from General Fund money directly, and then the money from the individual account is actually then redirected to the trust funds to help sustain the trust funds in a direct sense. Many other plans operate on the basis where the individual account financing may come as a result of money being redirected from the trust funds to the individual accounts, and then there is a subsequent offset against benefits for those who are participating in the individual accounts.

So, we have a number of mechanisms. The latter one is the mechanism which we have a number of plans being considered at the time, and generally speaking the general effect on the trust funds for that is that with the money being redirected starting relatively early from the trust funds this is where we do get into the question that Chairman McCreery mentioned about the transition investment, where you might need General Fund transfers to, in effect, sort of fill the gap for that money that is redirected. Subsequently, though, the benefit offsets under many of these plans then start to come up and they will, in many cases, reach the point where the amount of the benefit offsets will reach the point ultimately on a cash flow sense where they will meet and perhaps even exceed the amount of the money coming out.

So, once you get past the point of making the transition investment, which can be a fairly lengthen period, and a fairly substantial amount of money, you can reach the point where the individual accounts will, in fact, provide a net positive cash flow in out years in the system.

Mr. JOHNSON. Thank you. When scoring the plans that include person accounts, what assumptions do you make with regard to rates of return on stocks, bonds, and government bonds, and I wonder if you could explain how you arrived at those estimates and how do you respond to those who say your expected rates of return are too high or too low?

Mr. GOSS. Well, we really first got involved in having to deal with returns on private securities back around the time of the 1994 to 1996 Advisory Council, which had three plans which did indeed involve equity returns. Right at the same time, we also had on the Senate side, I'm sorry to say, we had a plan by Alan Simpson and Bob Kerry that was a unique plan in that it included not only investment of the trust funds in equities, but also personal accounts within one plan. We haven't seen that since. For their plan and also for all three plans of the advisory council, we had to deal with

the question of what would the return on stocks and on corporate bonds be.

At the time we looked at what the experience had been. We looked at the Ibbotson data out of Chicago, which is sort of the source for what has happened historically. We looked at the data from Jeremy Siegel at the University of Pennsylvania, who has explored these issues, going back 200 years or more in the U.S., and we looked at international data also. We came to the conclusion that the equity returns, which at the time over long periods of time, had averaged at about 7 percent above inflation, 7 percent real, seems to be a realistic number going forward.

Since that time, we have been in discussion with numerous finance and economist folks over the years, and we have become convinced that there are reasons to believe that this 7 percent equity yield should be expected to be somewhat lower than that in the future, and we are now using a 6.5 real assumption, largely on the basis of greater access by the population to stocks on perhaps a slightly lower sense of the riskiness of investment in stocks. There has been a considerable discussion about the nature of the trustees estimates, which suggest that there will be a slowdown in the rate of growth in the aggregate size of the economy, the aggregate gross domestic product and potential implications of that slowdown in the growth of the aggregate gross domestic product relative to what you might expect to happen by way of a return on stocks or bonds.

Our sense—and again, we have done a considerable discussion of this, is that we do not see that there is a necessary connection between a slow down in the rate of growth in the overall economy versus the return that you might expect to get per dollar invested in stocks and bonds. Unless you desire to go into greater detail on this, I won't go into all of that at this point. The bottom line basically is that when you have a slower growing economy, because we have a slower growth in the labor force, and that because we have lower fertility rates and a slower growth in the population in general, this does not mean that we will have a lower rate of productivity growth or a slower growth in technological progress in the society. Those are really the ingredients that allow us to have a return on capital investments that allow us to enjoy returns on things like stocks and bonds. So, we do not see in the U.S. or in the world environment that those will necessarily be changing in the future.

Mr. JOHNSON. Thank you, Mr. Goss. Thank you, Mr. Chairman.

Chairman MCCRERY. Thank you, Mr. Johnson. Mr. Goss, I should tell you that should you wish to elaborate on any of your answers to these questions, we would welcome anything further in writing that you would wish to provide the Committee.

Mr. GOSS. Thank you.

Chairman MCCRERY. Mr. Neal?

Mr. NEAL. Thank you very much, Mr. Chairman. Let me thank you, too, Mr. Chairman. I think the witnesses that you have had to date have been really helpful to this discussion, and I think that in addition had the Administration begun this discussion with discussing solvency and sustainability rather than traveling across the country talking about a crisis, it would have been most helpful

to the debate. Back in Boston, people are saying imagine Paul Revere traveling through the streets of Boston announcing the British are coming—in 40 years.

That has been part of the problem here. We really have an opportunity to discuss, as you suggested in your previous comments, an opportunity to really put some good ideas in front of the American people. I do want to discuss a bit with you this 75-year window, because if we were sitting here 25 years ago, we would have had trouble discussing with any accuracy the advent of the computer and how it has changed things in terms of productivity. Certainly 40 years ago, we would have had trouble discussing divorce rates, and we would have had trouble discussing longevity, and there would be the discussion of women in the workforce, two-income families, and all of those things. So, that 75-year window, I think is a bit difficult to predict beyond, and I think that we should be very, very careful as we proceed down that road. Let me get to an issue of specificity with you.

Social Security benefits are designed to keep pace with the standard of living so that replacement rates are constant over time. Each generation of workers receives benefits that reflect the higher wages they earned over their working years. The President and others have characterized this as growth. In fact, the replacement rate, the amount of their pre-retirement earnings replaced by Social Security remains steady.

Let me explore what would happen if we were to switch to a formula that ties initial benefits to growth in prices rather than wages or some combination thereof. If we did that, would benefits continue to replace a constant portion of workers' pre-retirement earnings or would that replacement rate shrink over time? In that case, would the standard of living guaranteed by Social Security decline for retirees relative to the general population?

Mr. GOSS. Thanks very much, Representative Neal. As you indicate, the current Social Security benefit formula does indeed result in benefits that increase with the average wage from one generation to the next at retirement. We have been looking at a number of proposals that would modify this in various forms, and one of which is the Consumer Price Index (CPI) indexing.

If we went to the CPI indexing, it has been suggested and it would be a true statement that the benefit levels, the purchasing power of benefits from one generation to the next would be maintained. However, it is also an exactly appropriate observation to make that over time, Americans have been lucky enough to enjoy productivity and an increasing standard of living. That means that our purchasing power has really been increasing from one generation to the next, and the current benefit formula does afford that.

If we were to go to a purely CPI indexed formula, then the increase in the benefits over time would not be reflecting an increasing standard of living in effect in the benefits, but would maintain the same purchasing power. I think these are all valid observations. The principal observation that we wrestled with, of course, is that we are glad that we do not have to make the decisions on which way to go on this and that is your job, because all we can really report on is the fact that we do have shortfalls coming for-

ward, and we have to make a decision either to lower these benefits or to increase the financing for them.

The only small exception to the observation of the stable replacement rates in the future is that in the last major amendments we had in the 1983 Social Security amendments we did have changes that will increase the normal retirement age by 2 years. One was just completed for people reaching retirement eligibility today, this year. Their normal retirement age is now 66. Just a few years ago, of course, we know it was 65. In another couple of decades, it will be raised further up to 67. These two changes in the normal retirement age will have the effect of for a person retiring at any given age, say, 65, of in effect of lowering their benefit replacement rate relative to the earnings levels they had during their working career and the two ages combined will lower them by about 13 percent relative to what the program would have provided prior to the 1983 amendments. At least we have some changes along those lines already.

Mr. NEAL. Yes. The argument is made in the Committee, and it has been made in other places, that there is an imminent danger that somehow Social Security is going to be insolvent in the near future, and we ought to plan for it now. The result is that there could be lower benefits, but the point is that if we were to move right now from wages to prices wouldn't that mean a lower benefit.

Mr. GOSS. It would clearly mean lower benefits than those that are scheduled under current law, and the question really is how much financing we have available on the table. There is also an argument that can be made about the level of benefits that would occur as a result of, for instance, price indexing relative to the benefits that are payable under current law. As we see, the benefits payable under current law are about 32 percent below those that are scheduled by the end of the 75-year period. If we were to go to a pure price indexing formula, the benefits would be reduced somewhat more than that by the end of the 75-year period.

Mr. NEAL. Okay. Again, Mr. Chairman, thanks for the witnesses. I think they have been very helpful.

Chairman MCCRERY. Thank you, Mr. Neal. Just to clarify, though, you said in answer to Mr. Neal's last question that if we were to go to price indexing now, that would mean lower benefits, lower than promised benefits, but that would be to new retirees; correct? Current retirees who are already in the system wouldn't experience any change in their benefit, or future benefits, would they?

Mr. GOSS. That is absolutely true. So far, all proposals—all provisions we have ever seen would apply generally by way of modifying benefits for people who become newly eligible in the future years.

Mr. NEAL. Mr. Chairman? Could I seek a point of clarification on this as well?

Chairman MCCRERY. Sure.

Mr. NEAL. What we are saying, though, then to the next generation perhaps, as the President has suggested, for somebody who is 54 years old right now, lower benefit?

Chairman MCCRERY. Lower than promised benefit.

Mr. NEAL. Lower than promised benefit.

Mr. GOSS. Lower than has been scheduled in current law.

Mr. NEAL. Okay. Thank you for that clarification.

Chairman MCCRERY. Yes. Thank you. Mr. Lewis?

Mr. LEWIS OF KENTUCKY. Yes. Thanks, Mr. Chairman. Mr. Goss, the Social Security actuaries have been involved in assessing the program's long-term finances for the Social Security Trustees Report, since the first report was issued in 1941. The Social Security actuaries have also provided the only scores on the long-term effects of major legislative changes in benefits and financing in every major reform effort through the last reform effort in 1983, and that is correct. Recently, the Congressional Budget Office (CBO) developed a model that analyzes the effect of changes in benefits and financing of the Social Security Program. Could you briefly describe the similarities and differences between the Social Security actuaries' model and the CBO model?

Mr. GOSS. Thank you very much. There really are a lot of similarities in these models. In fact, we worked closely with the folks at the CBO in the development of their model. In fact, they actually even use our population projections in the model. The principal areas of difference are in the economic assumptions and the nature of the methodologies that are used for projecting benefits into the future.

Initially, when they have developed their model, we looked, and there were some differences in the methodologies for projecting average benefits that were giving somewhat different results. We have gone back and we have looked, and they have made some changes. We have made some changes, and we think we are a lot closer together now. The principal area that really remains where there are significant differences between their projections and ours really are in some fundamental assumptions. They have a higher rate of growth in the real wage into the future. They have a higher real interest rate, and they have a lower price inflation rate that they are assuming going to the future. These really explain the large majority of any differences that we have.

What is similar, though, about the projections is largely because they use the same demographics, the same population base as the ones that we project, is that they both project that there will be significant and substantial shortfalls in the program under the intermediate assumptions going into the future. I believe their year of the cash flow of the system turning negative is different from ours by two or 3 years. The year in which trust funds would be exhausted is projected by them to be perhaps a decade different from ours. The gist of really the outgrowth of these projections is in essence we would say fairly similarly.

Mr. LEWIS OF KENTUCKY. Thank you.

Chairman MCCRERY. Thank you, Mr. Lewis. Mr. Pomeroy?

Mr. POMEROY. Thank you, Mr. Chairman. I would echo Mr. Neal's comments about the informative and fair handed way these Subcommittee hearings have unfolded. I appreciate it. Mr. Goss, I think you are to be recognized for your long-time service to Social Security, during which period you have been available to any of us that have wanted to ask questions in terms of various ideas on Social Security, and it has been my pleasure over the years to work with you.

Mr. GOSS. Thank you.

Mr. POMEROY. So I get this straight. When we talk about sustainable solvency, this is basically what? A leveled outflow of liability past the year 2080; is that correct?

Mr. GOSS. Past the year 2079. Approximately 2080 is the end of our current 75-year projection period.

Mr. POMEROY. I am fairly staggered that we are worrying about 2080, 2079. I have seen tax bills pass out of this Ways and Means Committee that, once the scoring window is gone, they will have a very different dramatic effect on revenue loss. That hasn't seemed to bother anybody. That is obviously much more a near-term event than 2079 or 2080. It really is a matter of—it gets to a little bit of the actuarial debate about the \$10 trillion unfunded liability in perpetuity. The American Academy of Actuaries says it is pretty hard to calculate in perpetuity, didn't they?

Mr. GOSS. They did.

Mr. POMEROY. Do you believe that you can fairly estimate a perpetuity shortfall for Social Security?

Mr. GOSS. Well, the estimate that we have calculated and that is included in the Trustees' report for the last two or 3 years, we do characterize it as really an extrapolation of the estimates that we make for the 75-year projection period, and it is, I am sure clear to everybody in this room that as we make projections going out even as far as 75 years, that the level of uncertainty that is associated with those estimates becomes greater.

Mr. POMEROY. It is kind of like weather, isn't it? Weather forecasting the next hour is pretty good. Tomorrow a bit dicey. Next week, fairly iffy. The longer you get, the greater the weight assumptions must play, and, therefore, the less tangible the number.

Mr. GOSS. I think that is true. The one thing to keep in mind, though, with all of our projections is that when we are projecting out over a long period of time, we are projecting really what the average experience will be, and that is to good in terms of the longer projections because the cycles that go up and down over near term sort of even out. However—

Mr. POMEROY. Although my time is going to run, Steve. I don't mean to cut you off.

Mr. GOSS. I am sorry.

Mr. POMEROY. Or in any way be in an argumentative pose with you. I want to move on to a different point, and that is the nearer term events that we need to go through to get this long-term sustainable solvency of 2079, first of all, we have to borrow a lot of money. This transition cost dimension I have seen estimates ranging from roughly \$2 trillion taking the task force's proposal, \$2 trillion in the first 10 years; \$4 trillion additional after that. Is that roughly correct to fund the transition costs—create these accounts?

Mr. GOSS. I am not sure which proposal this—

Mr. POMEROY. Proposal B of the Social Security Task Force proposal.

Mr. GOSS. Are you talking about the model two of the Commission?

Mr. POMEROY. Correct.

Mr. GOSS. The President's Commission? I believe we had a number when we looked at the amount of the actual general revenue

transfers that were necessary, they amounted to somewhere in the vicinity of \$1.5 to \$2 trillion.

Mr. POMEROY. I believe that is the first 10-year figure; is that correct?

Mr. GOSS. Well, I tend to think of these in terms of the present value dollar amounts, which is the way we normally add these up over time. I think you get larger numbers if you look at them in terms of constant dollars amounts, and people look at them in different forms.

Mr. POMEROY. So, there is trillions of dollars of additional money required; because we are in a national deficit, that means trillions of dollars of additional borrowing in the near term, and then the sustainable solvency gathered by essentially taking down the Federal guarantee under Social Security to the individual; in other words, changing substantially the defined benefit nature of the commitment Social Security now has to Social Security recipients and reducing it, reducing it in the nature of what is in the account it pays out. So, is that essentially how sustainable solvency is reached? Do you initially borrow a lot of money, and then over the long term you reduce substantially the guarantee of Social Security?

Mr. GOSS. Well, it depends on the proposal. There are certainly proposals that you could probably characterize as operating in that fashion. The other proposals, for instance, by people like Peter Diamond and Peter Orszag that have put forth proposals that would not involve accounts, and would also achieve sustainable solvency. We have a wide variety.

Mr. POMEROY. Do the private accounts—that is true. Do the private accounts, however, generally conform to that model—borrowing money now and reducing the Social Security guarantee to the individual over the long term?

Mr. GOSS. Well, the first portion of that is I believe true. On all plans that we have looked at, it would involve significant increases in advanced funding. Most of such plans have involved individual accounts now. The former President, of course, had a plan that would involve advance funding within the trust funds, and that would also have involved considerable additional money to be brought in. The part about reducing the defined benefit later is a little bit less clear. It depends. Representative Shaw, who was here a moment ago, in his plan would not, in effect, really reduce the sort of scheduled benefit. Representative Ryan's plan would not really do that either. They work by different mechanisms, but many of the plans do operate on a fashion where the totality of the benefit that would be guaranteed from Social Security and the individual account would be guaranteed not to be lower.

Mr. POMEROY. I am aware of the Shaw plan that has that. I am not aware of the other features. My time has elapsed. Thank you very much.

Mr. GOSS. Okay.

Chairman MCCRERY. Thank you, Mr. Pomeroy. You may not have been here earlier when Mr. Goss answered that same question, and actually Mr. Ryan's plan also does that without reducing the guaranteed benefit.

Mr. GOSS. If I may just add the one tiny clarification, Chairman McCrery. The one difference is Mr. Shaw's plan would work on the basis where the money from the individual accounts would, in effect, come back to the trust funds, and, therefore, the entirety of the benefit would be paid from Social Security. I think Mr. Ryan's plan and some other plans would operate on the basis where there would be a guarantee that the benefit could not be lower in total than what is scheduled under current law, but it would be a mix between disbursements from the individual accounts and from the Social Security Trust Fund.

Mr. POMEROY. Mr. Chairman, may I ask one follow-up question, a brief one? Not in any way to prolong this.

Chairman MCCRERY. We can do a second round of questioning.

Mr. POMEROY. It is right on this precise point.

Chairman MCCRERY. You are afraid that we would forget that? Okay. Go ahead.

Mr. POMEROY. Does this essentially put the Federal Government into the position of guaranteeing the stock market?

Mr. GOSS. In some plans you could argue that. It is not really so much a matter of guaranteeing the stock market. We have not seen any plans that would say in effect we will guarantee a specific return on your investments and personal accounts. However, we do have a number of plans that would suggest that if the personal account falls below or to whatever extent the personal account falls below an amount necessary to augment your Social Security benefit and bring it up to a given level, like present law scheduled benefits, then the Social Security Trust Funds would come forth and would make up that difference. So, it is an arguable point that that is essentially guaranteeing your return.

Chairman MCCRERY. Thank you. Mr. Hulshof?

Mr. HULSHOF. Thank you, Mr. Chairman. I wish to follow up on the line of inquiry from my good friend from Massachusetts inquired a little bit earlier and that is the idea that demographic trends are really driving the financial challenges in the long term. With some certainty, I tell people at a town meeting back in Missouri the adage that or the suggestion well, if you fellows in Congress had not borrowed from the Social Security Trust Fund in the 'seventies and the 'eighties and the 'nineties, we wouldn't have this fix that we are in. Yet, to be definitive, as the 2005 Trustees Report says, the probability of trust fund exhaustion is about 97 and a half percent that the funds will be exhausted before the end of 75 years and that is because of the demographics. Is that a fair assessment, Mr. Goss?

Mr. GOSS. We would argue that the principal basis for the big shift in the costs that we see in the future, with likelihood, is principally because of the demographics. If I could just sort of elaborate just on one tiny point. Our stochastic projections in Appendix E of the report to which you refer, we have worked very hard on those, and we think we have some very good projections. They are very similar to stochastic projections made by a number of other entities, like the CBO. However, all people doing these stochastic projections understand that we still have some work to do. We do not believe we are projecting the full range of possibilities that is getting out there. Nonetheless, the probability given the demographics

that we have currently and are likely to see in the future, the probability that Social Security will be solvent throughout the next 75 years we think is very low.

Mr. HULSHOF. These aren't the kind of trends that are subject to substantial fluctuation in the near term, are they?

Mr. GOSS. Well, there is always that potential, but the big fluctuation and the major variable that has really affected us, which is fertility, the big fluctuation we saw was between 1965 and 1972, and I think we all understand what some of the major factors were—availability of birth control, for example. Will there be substantial changes in birth rates going forward? We suspect not. We think that is going to be relatively stable. Certainly, it could potentially go either way. We see in many of the other industrialized countries in Europe where they have much lower birth rates than we have. So, there is a possibility that we could go that way.

Mr. HULSHOF. I would say then again to my good friend, who has cited a very famous patriot from the colony of Massachusetts, and to paraphrase, Mr. Neal, the red ink is coming. The red ink is coming, as opposed to the red coats, and I would invite the gentleman to be a patriot as the gentleman from Massachusetts was when he went on his midnight ride.

Mr. NEAL. Would you yield for a question?

Mr. HULSHOF. Yes, I would be happy to yield.

Mr. NEAL. Are you saying the writing coming in 42 years?

Mr. HULSHOF. I also want to follow up on something that Mr. Levin said, and I do acknowledge that the use of language is so important, and there are terms of art now related to this discussion. We have heard add-ons and carve-outs, and we have had progressive benefits. We have talked today to find sustainable solvency, guaranteed benefits, or at least guaranteed as opposed to promised benefits. Again, all those are terms of art. Perhaps one that is not a term of art, at least I don't think there is a disagreement, that is the word "voluntary," an adjective from the root word to volunteer, optional, a personal choice. Surely there is not a dispute as to the idea of a voluntary account, that that is in essence what it means. Then we make assumptions. There is where I want to go for the remainder of my time, Mr. Goss, because in your analysis of plans or the actuaries' analysis of plans with personal accounts, you make certain assumptions. In one instance or in some cases a participation is estimated to two-thirds, that is, one out of every three Americans would choose not to have a personal account, but where do you come up with this estimate, or give us some sense of the confidence that we can place in these assumptions regarding personal accounts, if you would?

Mr. GOSS. That is a very good question. Unfortunately, we do not clearly have data. We do not have experience that we can draw upon for the precise kinds of accounts we are generally looking at. We do have the experience of looking at what happens with 401(k) experience in the United States, and we see that participation in 401(k)s started out at something like less than half. It is now more like two-thirds to three-quarters of individuals participating. We feel that in fact there has been a learning curve for people in the United States, that there will be an expectation of people having

a greater tendency to engage in individual accounts, all else equal, today than might have been the case 20 or 30 years ago.

The principal differentiation we make on types of accounts though as to what we would anticipate the participation rate will be is basically what people will be confronted with. The first and most important distinction is whether or not there will be an out-of-pocket component required by individuals. Some plans would require an individual to, say, put up 1 percent of their pay into the individual account and then they will get a match, much like most of our 401(k)s. We would expect a plan of that sort will tend to, all else equal, to have a lower participation rate than a plan where you simply sort of sign on the dotted line and say, now, two or three or 4 percent of my pay will be directed from the trust funds to the individual account, and you don't have to put up any extra money on your own. That is the first distinction.

The other distinction, which requires a little bit more foresight down the road by individuals is what do I give up in return for having the money go into my individual account? What is the nature of the benefit offset? How large will the offset be and what will its characteristics be? There is a wide variation in characteristics of that sort. Most of the plans we have scored so far has either had two-thirds or 100 percent participation, and we have really reserved 100 percent participation for plans where there would be a clear and obvious choice where individuals, if they make it, simply really cannot lose. They would be guaranteed to come out with more as a result of engaging in the individual account than if they did not engage in the individual account.

Most of the other plans we have seen present people where there is some variability, some fluctuation, some risk, if you will in what the outcome might be, but generally would give a relatively high expectation of coming out ahead as a result of engaging in the account. We think two-thirds is appropriate in that case. There is some variation though.

Chairman MCCREY. Mr. Becerra.

Mr. BECERRA. Thank you, Mr. Chairman. Mr. Goss, thank you for being here, appreciate it, for the testimony and answers so far.

Mr. GOSS. Thank you.

Mr. BECERRA. Let me ask a little bit about the financial situation of the Social Security system, the trust fund, because we have gotten into this a little bit. Today Social Security is running a surplus. It is collecting more from people who are working, from their FICA taxes, and they are having to send out to retirees who are currently receiving pension benefits, retirement benefits or disability benefits or survivor benefits. We have been running a surplus for several years now, many years, and we will continue to run surpluses for still many years, correct, in Social Security?

Mr. GOSS. Absolutely.

Mr. BECERRA. Tell me if I am wrong. This year we will collect from Social Security Federal Insurance Contributions Act (FICA) taxes about some \$70 billion more from workers than is actually needed to send out, plus the interest that we will continue to accrue on those treasury bonds that are in the trust fund will add up to a total surplus for the year 2005 as something approaching \$170 billion or so, correct?

Mr. GOSS. I believe it is in that vicinity.

Mr. BECERRA. It is \$165, \$170. I have heard \$169. Somewhere around \$165 to \$170 billion in surplus dollars for this year. To date, do you know how much has been accrued, how much has accumulated over the last several decades in the trust fund? Do you know how much we have today?

Mr. GOSS. We are currently at about \$1.8—

Mr. BECERRA. Trillion?

Mr. GOSS. There is \$1.8 trillion in the trust funds at this point from revenue accumulating over and above what has been spent.

Mr. BECERRA. My understanding is that in that year 2017, 2018, that everyone keeps saying that we are going to now stop collecting enough from workers paying in to pay out those who are retired or disabled or receiving survivor benefits, that the trust fund will have reached the point of having some \$5 trillion in it.

Mr. GOSS. I believe in then current nominal dollars it would reach that level, as I mentioned in the statement, in present value dollars it will be about \$ 2.4 trillion. It will be a very large amount of accrued reserves at that point in time.

Mr. BECERRA. My understanding is, as much as we hear others say that there is a crisis, that surplus continues to grow until about the year 2027 to about \$6.5 trillion.

Mr. GOSS. In nominal dollars that is true because the amount of money that would be necessary to augment taxes to pay full scheduled benefits during that interim period would be less in that period than the amount of interest that is—

Mr. BECERRA. So, we are still adding up a little bit more, but by 2027, 2028, that is when we start to see the decline into about 2041, 2042, or the CBO says 2050, 2052. Now, let us compare that to the existing Federal budget, which my understanding is, this year, this fiscal year will run not a surplus like Social Security will run this year, but will run a deficit of some \$425 billion. So the deficit today in the operating budget, the budget the President presented to Congress was about \$400 and some odd billion in the hole. To use the words of my friend from Missouri, not only is the red ink coming, the red ink is here when it comes to the operations of budget.

So, while we have years to go before Social Security ever encounters a problem, if indeed it even will if all these assumptions play out, we know today that the Federal Government has misallocated its dollars at least—or its priorities in terms of its spending, because obviously it is running massive deficits, has been running deficits now since the President took office, and will continue to run deficits. The President does not project that when he leaves office in another 3 years, he will still have a surplus in the budget. So, when we hear that there are proposals out there, privatization proposals that would fund that transition cost or the gap between what is needed to cover benefits and to take care of the cost of transitioning to privatization, that those plans, those privatization plans rely on general revenue transfers. What we are in essence saying is taking money from those pots of money which are today also trying to figure out where they are going to get their money since right now that operating budget is running in a deficit. Are you following my line of thought here?

Mr. GOSS. Yes.

Mr. BECERRA. So, I am thinking to myself, there are privatization plans out there saying, don't worry, we can guarantee you benefits if you have a private account, because guess what, we are going to take the money from the general revenues. General revenues is another word for saying the 100 million in our Nation who are going to school, public education gets about \$60 billion in a fiscal year. If the transition costs alone are in the trillions, \$60 billion a year, you could take every single dime out of funding for education for the 100 million students in this country, and you would have to do that for at least 20 years to get to a trillion dollars. So, if these privatization plans are going to have to fund trillions of dollars in costs by taking it out of the general revenue, I don't expect many Members in Congress are going to want to take it out of national defense, so we will have to take it out of education or housing or senior care or veterans benefits. It has to come from something in general revenues, correct?

Mr. GOSS. That is correct. There basically would be three choices for all of the plans that would incur some extra money needed from general revenues, either there would have to be additional taxes outside of Social Security to provide that, or reducing other spending as I think you are suggesting, or more borrowing from the public.

Mr. BECERRA. Thank you. I see my time has expired and the Chairman has been very generous. So, I thank you for your time.

Thank you, Mr. Chairman. Yield back.

Chairman MCCRERY. Thank you, Mr. Becerra. Mr. Brady?

Mr. BRADY. Thank you, Mr. Chairman. Is it safe to say that Congress will have to find trillions of dollars to preserve Social Security, either to keep it in its current pay-as-you-go form or to prefund a different approach to long-term solvency?

Mr. GOSS. I think it really depends on really what the goal is in achieving. One option, for example, certainly would be to just lower the level of scheduled benefits in the future. We could in effect smooth out—

Mr. BRADY. To preserve the current benefits we would have to—

Mr. GOSS. If we want to preserve the current benefits there is no question we need to find—

Mr. BRADY. So, we will spend money, absent changes in benefits, we will spend trillions of dollars to either keep the current benefits or to prefund a longer-term approach, say, personal accounts?

Mr. GOSS. No question about it.

Mr. BRADY. Thanks. I appreciate your testimony. I have done like a number of other Members of this panel, a number of town-hall meetings. I wish I could drag you around to all of them. We have lots of questions, good questions from people. Let me ask you some of them as if you were at my workshops. Outsourcing, what is the actual actuarial impact of outsourcing on our Social Security system?

Mr. GOSS. I assume, Mr. Brady, when you say outsourcing you mean American companies tapping into labor supplies outside of this country?

Mr. BRADY. Yes.

Mr. GOSS. In the near term at least, what this really means is that there would be a transference of capital by these companies to labor supplies. If we are talking about, for instance, going to China or India and actually hiring people and setting up plant and equipment, that means that there would be less labor and less work than there might otherwise be in this country. The real question is, when that is done, is it done because there is a shortage of labor, or is it—

Mr. BRADY. Perhaps, let me be more specific. Have you measured the actuarial impact of outsourcing on the Social Security system?

Mr. GOSS. We haven't really, per se, because when we make our projections of the future labor supply and the future number of workers in the economy, we assume that going to the future we will have rates of employment amongst people by age and sex that are following trends that are very similar to what we have now.

Mr. BRADY. Have you estimated the actuarial impact of insourcing jobs?

Mr. GOSS. By insourcing I assume you mean foreign companies coming in, employing Americans in the United States?

Mr. BRADY. Exactly.

Mr. GOSS. We have not specifically identified separately the impact of insourcing versus outsourcing.

Mr. BRADY. What is the actuarial impact of illegal immigration on our Social Security system?

Mr. GOSS. The impact on the financing of our Social Security system of other than illegal immigration is generally an unbalance positive toward the financing of the Social Security system, and really the principal reason for that is because immigrants who come into the country, whether they come on a legal or on an other than legal basis, once they arrive in this country, generally in their early or their mid twenties, if and when they have children on our shores, those children of course are U.S. citizens. The principal impact over the 75-year time horizon is those children who are born in the United States, should they continue to reside in the United States, represent an increase in our population, much as though we had an increase in the fertility in the United States, and that actually does accrue positively to the financial outlook of Social Security.

The specific immigrants who come to the country is really a very mixed situation we have for individuals who come to the country on an other than legal basis, many of them end up working and contributing and perhaps getting benefits at a later time, but very many of them also may work and contribute to Social Security and never really receive benefits, so there tends to be a plus. Others, of course, never work in the so-called above-ground economy and contribute at all. So, it is a very, very diverse possibility here.

Mr. BRADY. What is the—this is my favorite question at workshops—wouldn't Social Security be solvent if just Members of Congress paid into Social Security?

[Laughter.]

I needed you yesterday. We had 350 people at a very informed town hall meeting, and clearly two-thirds of them were astounded

to find we pay into Social Security and have for some time. The President's plan, I hear all sorts of wild estimates, \$5 trillion costs and 90-percent reduction in benefits. Has your office scored or published an official proposal by President Bush?

Mr. GOSS. We have an aspect. At the time of the State of the Union address the President put forth a specific specification for the individual accounts that he had in mind, and we got specifications for that through the year 2015. We produced a memorandum based on what they had laid out in specifics through that time period, including the effects of the benefit offsets which they were also specific about. The White House was not specific at the time as to what would happen after 2015 in the nature of the individual account contributions. So, we were really not able to make a projection beyond that.

Since that time the President has, as we all know, also spoken to a kind of a progressive indexing benefit structure. We have done estimates on that particular progressive indexing concept for a gentleman named Bob Pozen, which whom I believe you are all familiar, who we worked with in developing that provision. As the President has outlined it, we believe that he has some aspects of that that are probably different from what Bob Pozen had in mind perhaps in the way that it affects disabled workers and possibly other items. We do not at this time have sufficient specification on that provision or of a complete plan really to be able to do an estimate in total.

Mr. BRADY. The answer at this point is not yet?

Mr. GOSS. Not at this point.

Mr. BRADY. I will finish with this, Mr. Chairman. The Windfall elimination Provision is one of those formulas that affects workers in Social Security substitutes, those who have earned a pension in Social Security, those who have earned one in a substitute. There are a number of bills out there. One of the ones we have proposed creates equal treatment, and it is scored at affecting the solvency of Social Security by 0.01 percent. In real terms how much is 0.01 percent?

Mr. GOSS. Well, 0.01 percent of payroll is equivalent to about \$400 million per year on sort of a steady basis going into the future on sort of a wage index basis. So, in most of our personal lives that would sound like an awful lot. In the context of the entire Federal budget and even in the context of the Social Security system, that is not a very large amount. Put a 1 percent of payroll, that can be compared also to the sort of long-term cost of the system of 15 percent of payroll, so it is very small compared to that. Also compared to the 2 percent of payroll roughly shortfall that we have over the future. So, it is not an enormous amount, but significant.

Mr. BRADY. Well, we have lowered that I think by half as well, so we will talk. Thanks, Mr. Chairman.

Chairman MCCRERY. Thank you, Mr. Brady. Ms. Tubbs Jones?

Ms. TUBBS JONES. Thank you, Mr. Chairman. Good afternoon, Mr. Goss. I am the only Member of this Committee that happens to be on the Subcommittees on Select Revenue Measures and Social Security and it meant today both are meeting at the same time. So, I apologize for coming in late and not having the opportunity to hear your testimony. Let me follow up on something my colleague,

Mr. Brady said. Mr. Brady said that for personal accounts and to keep Social Security benefits in place, that we will have to borrow or pay out more money, but it is not “or,” it is “and,” to do both of these it is going to cost us a lot more money than to do one or the other. Is that a fair statement?

Mr. GOSS. I am sorry? To do both, to provide?

Ms. TUBBS JONES. To provide money for personal accounts as well as to keep the benefits at the level that they are right now through 2079-2041. I am sorry.

Mr. GOSS. It depends really on exactly how you approach this, but oftentimes the way we try to characterize it in the memoranda that we do for proposals, we try to break down as clearly as we can what is really happening with a given proposal. Fairly recently we have added a new table to our memoranda. It is Table D as in difference, where we actually try to elaborate upon what happens on a year by year basis within a proposal and several aspects. One of the aspects is the way in which the proposal actually affects the cost of the system and how much the level of benefits that are scheduled under current law are changed and—

Ms. TUBBS JONES. Mr. Goss, I know you are very good at responding to questions and mine was really simple, that it is going to cost us more money to be able to fund personal accounts.

Mr. GOSS. I apologize. You are right. If what you are talking about is to fund personal accounts and in addition have the Social Security benefits maintained—

Ms. TUBBS JONES. Yes.

Mr. GOSS. —at the present law scheduled level, there is no question but that that would be fairly expensive.

Ms. TUBBS JONES. Thank you. Also you talked about Mr. Pozen as being the person who assisted the President in proposing private accounts, and he is the one that recently said that private accounts should not be the first option. Have you heard that that is what he said, sir?

Mr. GOSS. I haven't heard the exact quote, but I have heard that he indicated something along those lines.

Ms. TUBBS JONES. Great. Let me ask you, as an actuary, you factor in race, gender, in terms of length of life, fair statement, when you are doing computations as an actuary?

Mr. GOSS. We do not in our projections explicitly have race specific numbers, but certainly they are inherent in the numbers we—

Ms. TUBBS JONES. So, are you then the person who would have provided information to the President for him to say that African-Americans live shorter lives than other Americans in this country, and that therefore it should perhaps be factored in, that the reason we want to create a private account is to assure them that they get paid more money—more of the money that they pay into Social Security?

Mr. GOSS. Well, the agency in the Federal Government that actually does the calculations about race-specific mortality is the Bureau of Census, and they actually have those data. No one would contest the data that they have. There is no question about that African-Americans do have shorter life expectancies.

Ms. TUBBS JONES. So, do you support the President's position that in order to help African-Americans who have shorter life expectancies, that we ought to pay them more out of Social Security?

Mr. GOSS. That we ought to pay African-Americans more out of Social Security?

Ms. TUBBS JONES. Yes.

Mr. GOSS. Well, we as actuaries, as you would probably guess, do not really support any particular position. We try to do the best analysis we can. It is clear that under Social Security or under any pension plan where annuities are provided that are the same for everybody who reaches an age, people who live a shorter length of time thereafter, whether they be African-American or men versus women, will tend not to get as much. One of the features of Social Security as we know it today, or course, as a positive, is that also survivor benefits and disability benefits are provided, and for those groups that tend to have shorter life expectancies and get less from the pension, they in general—

Ms. TUBBS JONES. That is the argument that I would make, but the President makes that argument. So, let us stick with what he said. So my statement is, or my question is, wouldn't it be better for our country to cure the reason for early death for African-Americans than to say we are going to provide them a greater benefit when they die or when they age?

Mr. GOSS. I don't think anybody would question that attempts to address differences in mortality across segments of our population would be a wonderful thing.

Ms. TUBBS JONES. Let me also ask you, Mr. Goss, in the course of—strike that. Let me go to another question, Mr. Goss. In fact, my time is up. So if we do another round, I will get some more time. Thank you very much, Mr. Goss. I appreciate it. Thanks, Mr. McCrery.

Chairman MCCRERY. Thank you, Ms. Tubbs Jones. Mr. Ryan?

Mr. RYAN. I was going to go one direction, but I want to address a couple points that Mr. Becerra and Ms. Tubbs Jones raised about the, quote, unquote, "costs of personal accounts." Is it not true, Mr. Goss, that according to the trustees that today we would have to put aside \$4 trillion in today's dollars today to maintain scheduled benefits for the next 75 years, or in other words, to put it in human terms, for my mother, myself, my wife and my children?

Mr. GOSS. I think that is a basically accurate statement. We would have described it a little bit differently and suggest that the \$4 trillion represents the shortfalls in net we have over the next—

Mr. RYAN. In net present value terms, which means put it aside today and grow it at the prevailing rate?

Mr. GOSS. That is one option that we could pursue, but another way to look at it is really that is the amount that we need to develop in terms of additional revenues over the course of the next 75 years as a whole.

Mr. RYAN. Right. If we wanted to just keep current benefits going for the next 75 years, we would have to come up with four trillion today in present value dollars to fund that?

Mr. GOSS. Well, we need to come up with sufficient revenue over the course of 75 years, not today, but over the course of 75 years that in present value would be equivalent to four—

Mr. RYAN. Thank you. That is what I am getting at. I forgot the table number you used but you have a new measurement called total system assets, which is the sum of trust fund assets and the personal account assets, and it indicates the total resources set aside to pay Social Security benefits. Using this measure of total system assets, would it be fair to say that personal accounts either drain resources from the system or that they build other programs' assets?

Mr. GOSS. We developed this sort of concept of total system assets at the time of the President's Commission on Social Security, and this was, as I think you are suggesting, in recognition of the fact that plans that would in fact redirect money from the trust funds and buildup individual accounts. To the extent that you look at these as a single entity, as a total system, you really do have to look at the assets that are in both of them on a combined basis. We have always made estimates where we have individual accounts or where we have trust funds invested in other than Treasury securities on the basis of both of the expected yield that we were talking about before with the 6.4 percent of real return expected on equities, and with a lower yield expected on equities and on corporate bonds that would be equivalent to the so-called risk adjusted basis. So, we really present both of these.

If you look at it on the risk adjusted basis, which many economists and finance people believe is an appropriate way to look solely at this, then in fact you see that total system assets really are not affected by investing either in individual accounts or in the trust funds in anything other than Treasury bonds.

Mr. RYAN. Using the trustees' numbers and historic rates of returns in the marketplace?

Mr. GOSS. Well, using the trustees' numbers and specifically the actuary assumptions of expected yields on equities and on corporate bonds. On an expectation basis we see generally whether you invest in the trust funds or in personal accounts, that total system assets are in fact advantaged by investing in private securities in all likelihood in the future.

Mr. RYAN. With the inclusion of personal accounts?

Mr. GOSS. Absolutely, yes.

Mr. RYAN. Since time is running fairly quickly, I wanted to ask you a question. There is all this confusion or talk about transition costs on new borrowing or new debt or new costs incurred to the system on top of the problems we have today when you go over to personal retirement accounts. Is it not the case that—and obviously I can't speak for every person's plan—but most plans that you are scoring, is it not the case that transition costs or any borrowing that might occur is another way of simply taking that long-term debt out there, that \$11.1 trillion unfunded liability, and paying it off on a discounted present value basis if in fact the end result, according to you the actuary, is that the plan achieves permanent solvency. So, is it not replacing the debt that is out there with a smaller debt that is paid off in the present time at a lower number?

Is that not in fact what is achieved when you have a personal account component to your reform that achieves permanent solvency?

Mr. GOSS. Well, this really depends very much on precisely the nature of the plan, as you suggest. If I could take on example, for instance, the President's Commission Model Two, which was a fairly pure example of the way a plan might work. Under President's Commission Model Two, because of the basic changes in Social Security through the price indexing of benefits, that provision alone—and it was very clear and the Commission desired to have this shown clearly—that that in effect fixed the long-term, in fact even if you go that far, the infinite horizon projection. So the actual savings to Social Security as a result of just that change in basic benefit levels would satisfy the entire \$4 trillion shortfall. That was really over and above that, the roughly \$1-\$1.2 trillion transition investment occurred under the Commission Model Two in order to finance the advance funding.

So, there really were two components under Commission Model Two. One was to in effect lower the benefits, to live within the 12.4 percent payroll tax basically, and that was a reduction of roughly \$4 trillion over the 75-year period in benefit obligations by lowering benefits from what was scheduled; and then in addition, the roughly \$1-\$1.2 trillion of transition investment in order to create the advance funding for the personal accounts.

Mr. RYAN. To bring the benefit up for the net—for the addition of the traditional benefit and the account and to wipe out the entire contingent liability; is that what you are saying?

Mr. GOSS. The combination of those definitely did wipe out the liability, and there is—

Mr. RYAN. I cannot see the light from here so I am going to keep asking you a question unless the Chairman shuts me down. I really can't see the light. Is it red? Okay. I guess we are going to do round two.

Mr. LEVIN. We don't think you see the light in many ways.

[Laughter.]

Mr. RYAN. Thanks, Sandy. Appreciate it. I yield.

Chairman MCCRERY. Thank you, Mr. Ryan. I am going to allow another round if anyone wants to stay and ask additional questions, if Mr. Goss can stay. Mr. Shaw?

Mr. SHAW. Thank you, Mr. Chairman. I want to go back to a couple of questions that were asked on the minority side. Mr. Neal made the statement that for the President or anybody to say there is a crisis in Social Security is like Paul Revere running through Boston streets saying the British are coming in 40 years. I would like to dissect that statement and look and see exactly what we are talking about. Isn't it true that over the next 12 years we are going to experience a shrinking surplus in Social Security?

Mr. GOSS. That is absolutely correct. Beginning in the year 2009 we see that the size of the cash flow positives will be starting to diminish.

Mr. SHAW. That means, in just plain language, the Social Security was set up so that the government can use that surplus in order to run the government and replace it with Treasury bills. In what year do we run out of surplus?

Mr. GOSS. Well, the year that we project currently under the intermediate assumptions that the positive cash flows will turn into negatives is the year 2017.

Mr. SHAW. So beginning in 2017, the Congress not only will not have the surplus in order to help run the government, which is a shortfall in revenue to the general fund, but they will also then experience an obligation to start putting cash out in order to take care of benefits to recognize its liabilities to tomorrow's seniors. Now, in saying that, I think that what we can really begin to start talking about is that there may not be a Social Security crisis out there, but there is certainly going to be a funding crisis. The funding crisis is going to be both to the Federal Government in order to run the government as well as in order—we are going to have to find revenue with which to pay the seniors.

Now, taking that and moving that forward, Mr. Ryan, being an economist, talks in terms of today's dollars; in terms of today's dollars, there is going to be a \$4 trillion shortfall. Over the next 75 years, in terms of cash flow, what would be the total cash shortfall to Social Security as the outlays, not in terms of today's dollars but in terms of how many dollars we are going to have to find over the next 75 years to meet our obligation under Social Security?

Mr. GOSS. The difficulty with trying to answer exactly that question is when we talk about the cash flow shortfalls, these are shortfalls that we usually are able to think of in terms of 1 year at a time what the cash flow shortfall is. For each year we look at what the shortfall is for that year, and the problem in sort of translating across years what those dollars amounts mean.

Mr. SHAW. Well, I have heard the figure \$26 trillion. I think that came out of your shop as to the total cash shortfall over the next 75 years.

Mr. GOSS. Well, we have certainly made projections of the annual cash flow shortfalls on a year-by-year basis, and we do show them, I believe, in the Trustees Report in nominal dollars. It is certainly easy to translate those into constant dollars on a year-by-year basis. The difficult part is adding them up across different years. We feel the most meaningful way, perhaps the only really meaningful way to add up the dollars in summation over a number of years is to do them in the present value, reflecting the so-called time value of money. If you do that, then we can add them up, and that is where we come up with the \$4 trillion amount. I believe the \$26 trillion number might be from adding up the constant dollar amount, which would be equivalent—

Mr. SHAW. Yes, that is what people understand. You have to remember, I am a Certified Public Accountant, he is an economist, and we do not agree on much of anything.

[Laughter.]

I deal in real figures. He deals in today's dollars, tomorrow's dollars, on this hand, on the other hand. So, I think it is very clear that we do have a problem. Then I want to go to Ms. Tubbs Jones' comment with regard to it is going to cost a lot to set up these individual accounts. Well, over the next 75 years, it is going to cost a lot more not to if we maintain existing benefit levels. Is that not correct?

Mr. GOSS. It depends really on how we develop the individual accounts and how we utilize them.

Mr. SHAW. Let's take Mr. Ryan's proposal and my proposal. I think you have scored them as actually over 75 years, borrowing a lot of money but paying it all back and producing a surplus. Is that not correct?

Mr. GOSS. That is certainly true of your plan. I am not sure that is true of all the plans of this sort.

Mr. SHAW. We will just leave it with mine. We won't worry about Mr. Ryan's.

[Laughter.]

So, the point that I am trying to make is a very real one, that actually if we set up individual accounts, no matter whose plan it is, that can avoid a financial crisis over a total of 75 years. It is going to—we are going to have a shortfall. We are going to have to borrow money. We are going to have to put it into these accounts. We are going to have to let these accounts grow. When these accounts, as they grow and become available then to the SSA to take care of benefits of future retirees, it does and it can very well create a surplus, and we can maintain existing benefits. Is that not a correct statement?

Mr. GOSS. I believe that is a fair statement, and we certainly see that demonstrated in your proposal.

Mr. SHAW. I will stop the questions right there. I have got the answer that I want. Thank you, Mr. Chairman.

Mr. RYAN. Will the gentleman yield just for a second?

Mr. SHAW. I would be glad to yield if the Chairman will allow it.

Chairman MCCRERY. The gentleman's time has expired, but the Chair will briefly yield.

Mr. RYAN. Just a quick indulgence on our plan. I think the reason why Mr. Goss did not expand on that is if the financing that we have in our plan materializes, then no borrowing is necessary to finance the accounts in our plan. I think that is why he hesitated in responding.

Mr. LEVIN. Mr. Chairman, is it my turn?

Chairman MCCRERY. Yes, sir. Mr. Levin?

Mr. LEVIN. I don't think we want to extend this and get you involved in our debate beyond where we should.

Mr. GOSS. If we can be helpful in any way at all, we are happy to do that.

Mr. LEVIN. Happy to do what?

Mr. BECERRA. You should take the out while you have it.

[Laughter.]

I said inappropriately. You can talk about what is clear under your plan is that we borrow now. That is certain. What happens 75 years from now is uncertain. That is clear. Anybody can set up a plan that assumes over 50, 75 years that it will work out and that the government will guarantee any difference, either by tax increases or budget cuts, which is what you do. I think—and so when you ask them to analyze it, they are going to say, sure, if the government is going to make up any difference, it will be solvent. Right? If we say if projections are off and the government will make up the difference, then there is sustainability, right?

Mr. GOSS. That is correct, much as there is, for instance, for the Medicaid Supplemental Medical Insurance plan.

Mr. LEVIN. The gentleman can say that about anything. Your actuarial figures about the impact are all averages. They do not talk about the differences for individuals in terms of what they will receive through these different plans, right?

Mr. GOSS. We do in many instances—not in all—provide, when requested, also some analysis of benefit levels that would occur for individuals at different earnings levels.

Mr. LEVIN. Okay, but in terms of the impact on where the market was when somebody would retire and the differentials that exist according to where the stock market might be, you have not analyzed that?

Mr. GOSS. We actually have. We have not publicized that greatly, but in order to develop estimates, as I know Representative Ryan well knows because we have talked about this considerably, to develop estimates for the cost of providing a guarantee which will provide something for people if, in fact, certain conditions go badly, but will not provide anything if things go very well. In order to provide that kind of a guarantee, we have to make an estimate of sort of the stochastic variation that might occur in account investments. We do that for the purposes of pricing guarantees in all plans that we have developed, and that is true for Mr. Johnson's plan, for Mr. Shaw's plan, and also for Mr. Ryan's plan.

Mr. LEVIN. So, if we gave you some figures that indicated a retirement at a certain level of the stock market 20 years from now at one point and where it was 9 months later with the kind of drop that we saw a few years ago, you can estimate the differential in what would be the retirement benefit received by the individual, right?

Mr. GOSS. Well, what we do is we have a need to be able to estimate sort of what the range of possible variations are over time because, as you indicate, there will be times when people in the 40 year course of their work history will have had a somewhat better than average stock market that they have been investing in, and there will be other generations that will have a somewhat worse than average stock market. We need to reflect those kinds of variations in a plan that will be showing a guarantee so that on the cases—in the probabilities where we will have a lower than average stock market or corporate bond yield, that we will know with what probability and to what degree will have shortfalls and the guarantee would have to come forth and provide the additional money.

Mr. LEVIN. From someplace.

Mr. GOSS. Well, from the trust funds of Social Security in these cases. On plans where we have this kind of a guarantee, what we do is we, in effect, estimate what the cost of this guarantee would be on almost, in effect, an insurance premium basis that becomes part of the cost of the plan. That is true with Mr. Ryan's plans, Mr. Johnson's plan, and Mr. Shaw's plan.

Mr. LEVIN. I think it was Mr. Lewis who talked about optionality. One thing is clear, that while under some plans, not all, using private accounts would be optional, the benefit cuts that have been proposed by the President would apply to everybody, and

those benefit cuts are not optional. So we need to be careful how we use the word “optionality” because the impact would be on everybody. Thanks.

Chairman MCCRERY. Mr. Ryan?

Mr. RYAN. Steve, I want to ask you to comment on something that I have been reading about lately. Some economists are projecting that future stock market returns are going to be a lot lower than they have in the past. I think Paul Krugman uses 4.6 percent; Ned Gramlich from the Fed says stocks ought to yield us 4.5 percent. I am sure we can respond to those arguments, but what interests me is both Krugman and Gramlich are saying that if stock returns are lower, then government bond returns will be lower as well. I think Krugman says bonds will be 2.1 percent instead of 3. Gramlich said they are going to be 1.5 percent instead of 3. Since Social Security’s financial status is calculated using the bond rate, wouldn’t the lower return on those bonds exacerbate our problems, exhaust the trust funds sooner, and accelerate the date at which trust fund exhaustion occurs? That is question number one.

Question number two, have you valued that? Have you measured the value and the acceleration of our problems if we had a 2-percent bond rate or a 1.5-percent bond rate, rate of return? So, it seems to me that those who are saying stocks are going to do crummy in the future are also saying so will bonds, which will simply exacerbate our trust fund problems. Is that not the case?

Mr. GOSS. That is absolutely the case. In fact, our Trustees Report, annually we have a sensitivity analysis section in it.

Mr. RYAN. Yes, what does your sensitivity do on bonds?

Mr. GOSS. Our sensitivity analysis, we have three different levels at which we showing changing only one variable on the interest rate for the investments of the trust funds. Our central assumption is about a 3 percent real return on long-term Treasury bonds in the future. Our low-yield assumption we show at 2.2 percent, which is perhaps—

Mr. RYAN. Even higher than those two estimates.

Mr. GOSS. Which is higher than those are, and that would change our 1.92 shortfall to a 2.48 shortfall, a little bit more than one-half of 1 percent of payroll, or a little bit more than a one-fourth increase in the size of the shortfall over the next 75 years.

Mr. RYAN. So a 25-percent increase in the unfunded liability?

Mr. GOSS. That is correct.

Mr. RYAN. One more quick question. Just to try and summarize things here, is it not axiomatic that, regardless of a benefit guarantee, the larger the personal account is—with a benefit offset feature, that the larger the personal account is, the sooner the system comes into solvency, but also the larger the short-term transition costs? Am I simplifying it too much? I am just trying to see if we can get a few basic understandings.

Mr. GOSS. It really depends on exactly how the plan is laid out and how the transition investment is, in effect, handled. To the extent that the structure of an individual account plan is set up so that after the transition investment is handled, we do have a positive cash flow. In fact, larger accounts will, of course, give a magnified effect in every aspect of both larger transition investment but also larger positive effects in the cash flow—

Mr. RYAN. So, the larger the account, the sooner individuals outgrow the minimum benefit, wherever that may be set, and the sooner the system comes into positive cash flow?

Mr. GOSS. I believe that the first statement is certainly true. The second statement is—

Mr. RYAN. It depends on the benefit guarantee.

Mr. GOSS. It really depends on the nature of the guarantee.

Mr. RYAN. Okay. Got you. Thank you.

Chairman MCCRERY. Mr. Becerra?

Mr. BECERRA. Mr. Goss, let me see if I can try to limit my questions to these. On the whole question of solvency and what it takes and what happens if you privatize the system, we are talking about a shortfall over 75 years, as you have said, in present dollars of something around \$4 trillion. My understanding is that that amounts to about the same as saying about 0.7 percent—or less than 1 percent of our GDP.

Mr. GOSS. It is 0.6 percent over the 75 years as a whole, on average.

Mr. BECERRA. Okay. Let's use the \$4 trillion because it is probably a little clearer. A couple trillions of dollars is a lot of money, but \$4 trillion. My understanding is—and I don't know if you would have done the actual scoring calculations of this because it is not within your jurisdiction as the Social Security actuary. My understanding is that the President's tax cuts that he enacted in 2001 and 2003 and so far is trying to now make permanent because under a nice little scheme, they only were to extend for about 10 years and end, and now there is an effort to try to make them permanent. If you were to extend those tax cuts of 2001 and 2003, for that same period of time that we are talking about for Social Security, where Social Security has that shortfall of about \$4 trillion in present dollar value, that the costs of those tax cuts—because there is a cost. The Treasury is not collecting the money. The cost of those tax cuts is at least three times, if not closer to four times, what the cost of the shortfall is for Social Security.

Mr. GOSS. I am not familiar with the magnitudes of these numbers in terms of the present value dollars, but I do know—I have heard from a number of sources, including the CBO, that their estimate of the effect of the tax cuts, if made permanent, would be on the order of 2 percent of GDP, and with our projected shortfall for Social Security unfunded obligations, about 0.6 percent of GDP. The 3:1 ratio would appear to be approximately correct.

Mr. BECERRA. So, if the President had not enacted his tax cuts and we had used what were at the time, we were told, surplus dollars instead to try to get ready for the Social Security shortfall which is coming in 40 or 50 years, we could have actually still gone forward with two-thirds of the tax cuts and still had enough money to take care of any insolvency that Social Security would face for the next 75 years.

Mr. GOSS. The possibility of using general fund financing with or without the tax cuts is certainly a possibility. Without tax cuts, presumably it would be easier if you all decide to pursue that.

Mr. BECERRA. So, now let's go back to the question that since today we are running a Federal budget deficit and because the President in his budget called for using the Social Security surplus

moneys that we are now collecting and using them to fund things like the cost of the tax cuts, we are today spending what amounts to about \$400 million a day—a day, if I do the calculations correctly of \$170 billion annual surplus that is collected for this year from Social Security—it translates to about \$400 million a day that is being spent out of the Social Security Trust Fund to fund things that are other than Social Security. If we were to use that money, those surplus trust dollars, Social Security Trust Fund dollars, and, say, pay down the size of the national debt, wouldn't we be preparing ourselves better into the future in the 40 years from now to be able to deal with the fact that we would need to help Social Security meet that shortfall that it has because we would then have a smaller debt, and therefore, we would be more capable of paying off things like the Social Security shortfall?

Mr. GOSS. First of all, there is absolutely no question about that for Social Security, the moneys that are in the trust fund, regardless of how the actual dollars are handled, will be there and will be made good to Social Security.

Mr. BECERRA. Thank you for pointing that out.

Mr. GOSS. When we do reach the point at which we do have to start having net redemptions of trust fund assets, it has to be either from raising taxes or borrowing from the public or lowering other spending. Clearly, if we had less publicly held debt at that time, that presumably would make that action easier.

Mr. BECERRA. So, if folks are so concerned about the fiscal situation of Social Security in 40 years, you would think that they would also want to worry about what the fiscal situation is of the Federal Government this year when we are running these massive deficits that require us to use Social Security Trust Fund dollars to help offset the size of the deficit. In fact, even with the use of the Social Security Trust Fund dollars to the tune of \$170 billion or so, we still have a massive Federal budget deficit this year of about \$425 billion. So, I think Congressman Shaw from Florida said it best, I think. He said it is not a Social Security crisis. I think he said it is really a funding crisis and where our priorities are with regard to funding.

Final question. Can you name for me a productivity out there in the private marketplace which offers you a pension benefit that is guaranteed, a disability insurance benefit that is guaranteed, a survivor benefit for a spouse or children of a deceased worker that is guaranteed, that also offers you a cost-of-living increase every year that is guaranteed? Can you find anything out in the marketplace right now, private sector marketplace, that offers you those four aspects guaranteed?

Mr. GOSS. I am not aware of any private offering that exists of that sort, no.

Mr. BECERRA. Thank you very much.

I yield back, Mr. Chairman.

Chairman MCCRERY. Mr. Johnson?

Mr. JOHNSON. Thank you, Mr. Chairman. First of all, Mr. Becerra, you know and I know that the cash increase this year is higher than ever, and it is because of tax relief. Furthermore, you keep talking about the President's proposal. I would like to ask you a question, Mr. Goss. There is a lot being said about the Presi-

dent's proposal. Has your office ever scored or published an official proposal by President Bush?

Mr. GOSS. The only proposal—the only official scoring that we have done for the President's proposal is just in the limited aspect of the individual account that he has put forth through 2015 with the offsets. We have done some scoring, as I mentioned earlier, for Robert Pozen on a change in the benefit structure, which appears to be along the lines of what the President has proposed, but we have not yet received specifications particularly on the nature of that.

Mr. JOHNSON. You do not have a President's proposal. Yes or no?

Mr. GOSS. We do not have a comprehensive plan from the President at this point that we can actually provide a score for.

Mr. JOHNSON. Thank you. Would you agree the numbers that have been circulated are based on significant assumptions, I guess, on the part of the authors as to details on what the President's solvency would include?

Mr. GOSS. I am not totally familiar with some of the numbers that you are referring to. I am aware of some numbers going around. I believe in fairness that there is a suggestion—and I have heard this from people on the White House staff—that they have suggested that the individual account structure would eventually move toward having a full 4 percent for everybody. The piece that we are missing is exactly on what basis and with what speed you would move toward having that. So, we simply do not have sufficient specification at this point to be able to say exactly what the Administration's plan would be.

Mr. JOHNSON. Right, and you said that the accounts would start going negative in 2009. I heard 2008 in your last proposal. Is that true?

Mr. GOSS. I am sorry. You mean—

Mr. JOHNSON. When we start not having enough money to cover all our expenses out of the trust fund.

Mr. GOSS. Well, it is 2009 is the first year under our 2005 Trustees Report. That is the first year in which we will start to actually see the size of these annual cash flow positives that we have now will actually start to diminish. They will still be positive for a while. They will be positive through 2016.

Mr. JOHNSON. It diminishes.

Mr. GOSS. They start diminishing in two—

Mr. JOHNSON. So, the dollars, which are not real, have to come from somewhere to cover our budget concerns here in the Congress, and somebody is going to suffer. We are going to have find money to fund agriculture, education, those kinds of things. Is that true? That is where that money is going now.

Mr. GOSS. Well, that is where basically the money from any investments, in effect, that the Social Security trust funds are making in the Treasury, much as if any of us were to buy a U.S. savings bond also, those dollars arguably would be used for similar purposes. It is a fair point to make that the money is not quite the same as if it were going into private securities. On the other hand, though, I think it is also a fair point that the money is not terribly

different from investments that would be made by individuals in savings bonds.

Mr. JOHNSON. No, but we are being squeezed—is that true? Starting in 2009.

Mr. GOSS. Well, certainly the contribution that Social Security taxes are making over and above the cost of that program will be diminishing starting in 2009, and then we will turn over toward it being a draw, in effect, from the general fund of the Treasury starting in 2017.

Mr. JOHNSON. Thank you. Thank you, Mr. Chairman.

Chairman MCCRERY. Thank you, Mr. Johnson. Ms. Tubbs Jones, did you want to ask another question or two?

Ms. TUBBS JONES. I would love to. Thank you. Earlier in this process, I think it was my colleague Mr. Ryan who was asking you something about total system assets as the way in which you determine that private accounts could support—or not create insolvency. Was that what you were saying, sir?

Mr. GOSS. No—

Ms. TUBBS JONES. A term you were using, what—

Mr. GOSS. Total system assets per se in the context of including assets in individual accounts do not per se speak to solvency of Social Security. What they really speak to is sort of a different issue, and that is that if you have the Social Security trust funds and you have some money, in effect, redirected from the trust funds to individual accounts, it is true that the trust funds then are diminished. Moreover, if the money leaves the trust funds and goes to individual accounts outside of the government, in fact, that is actually scored as an expenditure from a budget point of view. The reason for considering the concept of total system assets is to say that that money is, of course, not lost to the world. That money has gone out there and goes into the individual accounts. As long as the individual accounts are preserved and are maintained, then those assets continue to accrue in—

Ms. TUBBS JONES. So before we started mucking around with trying to create a private account, “total system assets” was not a term that we talked about in Social Security.

Mr. GOSS. That is correct.

Ms. TUBBS JONES. A new term also, since we decided to start working this, is “progressive indexing” instead of “wage indexing” and “price indexing,” right? Let me ask you one more question—I have two more questions, actually. You were talking about—actually, that was still total system asset. Let’s forget that. Let me go to this one. Okay. I understand you have not prepared an analysis of the President’s plan because, quote-unquote, the Administration does not have a full plan, they keep throwing us little chit-chats here and there, private accounts, possibly raising this, that, and the other. In spite of you not having a President’s plan, have you ever—you not having the President’s plan, are you familiar with an analysis that was done by Jason Furman of the Center on Budget and Policy Priorities?

Mr. GOSS. I briefly saw that. I am not sure which analysis you are referring to, but I believe he has done an analysis in the last few days.

Ms. TUBBS JONES. It is called "The Impact of the President's Proposal on Social Security Solvency in the Budget."

Mr. GOSS. I am aware of that. I have not had the opportunity to look at it with any care. Unfortunately, we have been fairly busy.

Ms. TUBBS JONES. Okay.

Mr. GOSS. Looking at his analysis——

Ms. TUBBS JONES. So, somebody believes the President has a plan. At least Mr. Furman, Dr. Furman does, because he has done an analysis of the President's plan.

Mr. GOSS. Well, if he has specifics on the plan that the White House has shared with him but not us, we would certainly be very interested in knowing what those are. I think there is a possibility that he has perhaps inferred some things about it.

Ms. TUBBS JONES. I mean, there is a real possibility, it is not unlikely that the President might have shown the plan to some other part of government and not shown it to you.

Mr. GOSS. Oh, I think that is certainly possible.

Ms. TUBBS JONES. It is likely, too, isn't it?

Mr. GOSS. Pardon?

Ms. TUBBS JONES. It is likely?

Mr. GOSS. No, I don't think so.

Ms. TUBBS JONES. You don't think it is likely?

Mr. GOSS. No, I don't——

Ms. TUBBS JONES. Well, let me ask you this——

Mr. GOSS. —think it is likely that he shared with Jason Furman——

Ms. TUBBS JONES. —has Dr. Furman consulted with your office to determine what assumptions you used about various elements of Social Security reform proposals?

Mr. GOSS. He has certainly been in touch with us in the context of the last Administration and since then about aspects, for example, the return that we assume as our expected yield on equities and on government bonds. Also, he has asked questions about what our assumptions are regarding participation rates for individual accounts.

Ms. TUBBS JONES. Since Dr. Furman is not an actuary, it is likely that he consulted with you so he would be able to do an appropriate analysis in order to give some or shed some light on the circumstances of private accounts?

Mr. GOSS. Well, I wish I could, but I cannot really speak to Dr. Furman's analysis. I am sure that he has done his best effort to do a very credible analysis, but unless he has more specification than we do, he would not be able to do a definitive analysis of the President's plan.

Ms. TUBBS JONES. So, you are not the only actuary. You are the actuary, but there are other people that work under you. Is that a fair statement?

Mr. GOSS. That is true. We have an office of 50 people.

Ms. TUBBS JONES. So it is possible that Dr. Furman has talked with some of the other actuaries in your shop to assure that his analysis is coming close to whatever the proposal is on the table.

Mr. GOSS. Well, it would be very, very difficult for him to compare that to our analysis of a plan for the President because we have not made an estimate of a specific plan for the President.

Ms. TUBBS JONES. You have done actuarial computations. You do actuarial computations on things that are not called the President's plan. Fair?

Mr. GOSS. Oh, absolutely.

Ms. TUBBS JONES. Okay.

Mr. GOSS. We do estimates for many Members of Congress and the Administration on a number of—on a wide variety of possibilities.

Ms. TUBBS JONES. Thank you, Mr. Chairman. I yield back the balance of my time.

Chairman MCCRERY. Mr. Pomeroy?

Mr. POMEROY. Thanks, Mr. Chairman. Much of the discussion on the reform proposals is macroeconomics. We take a look at the economics of the system, the economics of the Federal Government, how this all works in the macro, macro view. One of the things I think we need to worry about as Members of Congress is the micro-economic. What does this mean to the household? What do we need to have in a system that adequately supports the household given changes occurring in longevity and such? I don't know to what extent this micro analysis involves the actuarial office, but I will just pose a couple of things for you.

Longevity rates are increasing. People are living longer. Do you have any data on that?

Mr. GOSS. We absolutely do. We monitor the data on declining death rates and increasing longevity on an annual basis. In fact, at the Social Security Administration we have access to what is undoubtedly the very best quality data available in the country for mortality rates, a combination of Social Security and Medicare data, and we tabulate these every single year based on the latest experience. The Bureau of Census and, in fact, the U.S. Life Tables even make use of the data that we are able to develop for ages 65 and over.

Mr. POMEROY. For your actuarial assumption, is it your expectation longevity rates—people will continue to live longer than present life expectancies?

Mr. GOSS. Absolutely, yes.

Mr. POMEROY. I don't know to what extent your office accumulates data on people saving for retirement years or having pensions or defined contribution plans or private savings that give them an income stream in addition to Social Security for those longer years of life expectancy. Do you have any information on this?

Mr. GOSS. We have not in the Office of the Actuary done a lot of work in the area of amassing information for additional sources of income. We do some of that in the area of analysis we do for benefits under the Supplemental Security Income plan, the SSI plan. There is another office at Social Security that does a lot of distributional analysis where they very specifically developed models to look at the overall aspects of income that individuals have.

The principal area where we have to worry for the Social Security system about other assets and income that individuals have is when they receive benefits to determine the extent to which tax-

ation of benefits will have an effect on the benefit levels they receive and the revenue that they pay.

Mr. POMEROY. Do you believe—

Mr. GOSS. We receive—

Mr. POMEROY. Do you believe system design changes need to carefully evaluate what else is going on relative to sources of retirement income to the individual so that you have a complementing response? In other words, if there are growing problems in the private side, you don't compound those problems with changes made to the Social Security design.

Mr. GOSS. I think that is an absolutely positive statement, Representative Pomeroy, and the way we have always operated in dealing with Members of Congress is we always seek to try to help to develop plans that would meet the objectives and the goals that the Member states. I think that is a very good goal.

Mr. POMEROY. We heard testimony from Dallas Salisbury last week, the head of the Employee Benefits Research Institute, an individual known to you, I am sure.

Mr. GOSS. Yes.

Mr. POMEROY. He said the risk of living to—how did he say this? The risk of income through retirement years is increasingly falling on the individual, and I think he was speaking about the shift from pensions with their guaranteed annuity payment to the individual and the nest egg approach and trying to match that. One thing I am very concerned about as we are talking about these design changes, they seem to me to make the risk that an individual might outlive an asset stream greater. To me it seems like the defined benefit model of the existing Social Security, with its monthly paid annuity, inflation adjusted, a payment you cannot outlive—it will be there as long as you live, rather, is a design that works very well in terms of helping people deal with the risk of outliving their assets. Would you agree?

Mr. GOSS. Absolutely, and that is why we believe that virtually every plan we have seen, whether it be maintaining for Social Security essentially the defined benefit nature or moving at least partially in the direction of individual accounts, have generally incorporated at least some aspect of annuitization so that there would be a lifetime guaranteed benefit going forward, once you determine at retirement how much you have to work with.

Mr. POMEROY. I am out of time, but I think that that is—I mean, I am glad there is consensus on annuitization. I think we do not have consensus on what is an adequate annuity to sustain independent living, and that is really the crux of it, not just getting the income every month but making certain they can live independently on that. I thank you and yield back to the Chair.

Chairman MCCRERY. Mr. Goss, I am just going to ask you a couple simple questions here that you can dispense with quickly, and then be on your way. We have not talked about people who were the subject of our last Subcommittee hearing, and that is, vulnerable populations—survivors, widows, disability recipients, and so forth. I know that some of the plans that you have looked at and scored treat those vulnerable populations in a way different from the way they treat the retiree population. Can you describe how

some of these solvency proposals that have been presented to your office treat these populations within Social Security?

Mr. GOSS. Absolutely. Very many of the plans—not all of them, but very many of the plans treat disabled workers and also young survivors—that is, survivors, generally speaking, of workers who died when they were pre-retirement—treats those two groups really differently from the retirees, as you suggest. The way in which many of the proposals would treat them differently is to say that even if there would be reductions in the basic benefit level through price indexing or progressive indexing or other measures, that, in fact, those reductions may not apply in certain proposals to the disabled worker beneficiaries or to the young survivor beneficiaries.

Depending on the nature of the plan in the case of disabled worker beneficiaries, the reductions that do not apply while they are receiving disability benefits may then apply on a partial basis once they reach retirement, and generally the partial application of these reductions is designed to, in effect, match up with a proportion of their working years in which they were not disabled and, therefore, would have been able to save money either on their own or within a personal account.

Chairman MCCREY. You are able to score these provisions?

Mr. GOSS. Yes. Yes, we are.

Chairman MCCREY. One last question. We have talked about how people are living longer in this country, and that is one of the demographic factors that is contributing to the problem with Social Security. There is a proposal called longevity indexing that some have spoken about. Would you explain how that would work, how longevity indexing would work? Would that help solve the long-term problem of Social Security?

Mr. GOSS. Thank you for that wonderful question. First of all, let me just mention very quickly that I was really more than a little bit too much glib in suggesting that birth rates or fertility are the really big issue in terms of the cost of Social Security in the future. It is true that the shift in our cost rates from the relatively low level we have now below our 12.4 percent tax rate over the period from 2010 to 2030 up to the higher level that is higher than our present law scheduled tax rates is largely because of the change in fertility that we had some 30 years ago. However, if you look at that cost rate, you see that it does tend to very gradually grow even beyond 2030, and that is the other component from increasing longevity that we have going into the future.

There are a number of ways in which to address that, and one of the ways that we have looked at over the years very, very, significantly is to have a kind of longevity indexing that would explicitly address in the currently financed system changes in either the retirement age or in the benefit formula that would be just sufficient to, in effect, immunize the Social Security system from increasing longevity. As it turns out based on our current intermediate projections of the improvement in mortality in the future, we would end up with changes that would be roughly equivalent to increasing the retirement age, the normal retirement age, by about 1 month every 2 years; or, in other words, if we were to do that in the form of a change in the benefit formula, that would be

equivalent to reducing the level of benefits below a pure wage-indexed basis by about 0.3 of 1 percent per year into the future.

These are essentially equivalent in terms of indexing the system so that you could maintain a given level of replacement rate but for the 0.3 reduction with the same 12.4 percent tax rate over time. By doing it, however, from the very gradual increase in the retirement age, you would be doing it in a way where the replacement rates at the normal retirement age could be exactly maintained with a 12.4-percent tax rate. You would simply be saying that as people live longer—this mechanism would say that as people live longer in their adult life expectancy, that we would keep the same ratio of retirement years to working years and keep that in the same relationship. Right now we have about two working years, on average, between 20 and 60 for every 1 year of retirement because life expectancy is about 20 years out of retirement. So, if we were to maintain that ratio and change the normal retirement age fast enough to maintain that, we would, in effect, immunize the system from changes in longevity alone, and that would be equivalent to changing the benefit formula by about 0.3 of one percent per year in the future or the retirement age by about 1.5 months per year.

Now, if I may just very quickly, there are several other forms of longevity indexing that are available. Most of them would have larger effects. We had for the Model three of the President's Commission proposal another sort of version of longevity indexing, which is really sort of a different flavor. It is substantially different. Rather than keeping the sort of relationship between retirement years and working year in sync with each other, it would instead say that as people live longer and longer in their adult life expectancy, all of those additional years of life expectancy should go into work years, and, therefore, we should maintain the expected number of retirement years as a constant in the future. This is just a policy determination that would have to be made.

Obviously, by doing that, but keeping the same amount of life expectancy in retirement in the future and having additional years of life expectancy go into working years, this would save more money from Social Security, and it would be equivalent to raising the retirement age at a faster rate. In terms of reduction in the benefit formula to have an equivalent effect, rather than 0.3 of 1 percent per year reduction in benefits across generations, this would be equivalent to a reduction of about 0.5 of 1 percent.

Chairman MCCRERY. Thank you.

Mr. LEVIN. Mr. Chairman, we want to finish. I just hope as we deal with these numbers, we realize the impact on individuals. I don't mean—I have had the privilege of working with actuaries for many, many years, and you are a splendid example. Let's remember when we talk about these things what the impact is on individuals. Also, let me say in response to Mr. McCrery's question about plans and survivor benefits and also disability benefits, for example, Mr. Pozen in his plan would not safeguard either survivors or disabled people from these benefit cuts. I think that is true of his plan.

Mr. GOSS. That is exactly through in the formulation that he put forth.

Mr. LEVIN. Okay. The same was true of the second model of the Commission.

Mr. GOSS. That is also true.

Mr. LEVIN. So, when the President said nice things about the Pozen plan, let's remember what was in it. Later statements about disabled people, persons, let's remember that if you safeguard them, you put a squeeze right on Social Security benefits for other people.

Mr. GOSS. Well, certainly the Pozen provision will save less money if, in fact, we safeguard the disabled. It is our understanding, though, that the President has suggested that the way that he would apply the Pozen provision would safeguard the disabled beneficiaries, at least until retirement.

Mr. LEVIN. Not the survivors.

Mr. GOSS. The survivors, our presumption is that that would be the case with the young survivors also.

Mr. LEVIN. Why do you presume that when Mr. Hubbard said that was not true?

Mr. GOSS. Well, obviously we should not—if Mr. Hubbard said that was not true, then we should not assume that, obviously. This is just part of the lack of clarity on the precise specification of the plan.

Mr. LEVIN. Also remember, I think—and I will finish—when we talk about other plans safeguarding, essentially it is in part because they are constructed so that if there is any shortfalls in the private accounts, as they impact on what would be a guaranteed benefit, the Treasury would pick up the difference. We can do that with any kind of plan. All right. Thanks. This has been a useful hearing. Thank you, Mr. Chairman.

Chairman MCCRERY. Thank you, Mr. Levin. I would just say to the Ranking Member that I appreciate the President being out front on this issue and making the case for reform of Social Security, which I think he has done. When it comes to specifics of putting together a plan to reform Social Security and achieving what I hope to be sustainable solvency in the system, the details are up to the legislative branch of government, and that is us, and that is why we are having these hearings. So, while it is, of some use to speculate as to what the President might be for or might not be for, really, it is up to us. My view is that the vast majority of Members of this Committee want to do something to preserve disability benefits and survivor benefits in some form or fashion. So, I suggest we move forward and talk about how we do that and how we structure a plan to achieve that, and that would be most productive.

Mr. LEVIN. I hope we will do that. When the President says private accounts must be in a plan and we say they must not be, there is a basic difference, and the President has not been vague about that.

Chairman MCCRERY. It is likely we are going to have differences, even on this Subcommittee.

Mr. LEVIN. That is a big difference.

Chairman MCCRERY. At some point we have to vote, and if you cannot vote for the whole plan, then that is fine. I would welcome your participation in whatever part of the plan you would like to

participate in, in terms of structuring a solution. Perhaps you cannot be terribly constructive when it comes to the personal account section of the bill, but maybe the other parts you can be. So, I would welcome that. I would also encourage you at some point to sit down and talk about personal accounts and how they might be structured to solve some of your objections to what you perceive to be some Republican plan out there for personal accounts, which we have not yet formulated.

Mr. LEVIN. Okay. There is just a lot on the table.

Chairman MCCRERY. Great. I got it. Okay. He said, "Okay." We are going to talk.

[Laughter.]

Thank you. This has been a great hearing. Thank you, Mr. Goss.

Mr. GOSS. Thank you very much.

[Whereupon, at 4:22 p.m., the hearing was adjourned.]

[Submissions for the record follow:]

Statement of Donald L. Anderson, Harpswell, Maine

Stealing My Social Security

For years I received notices from Social Security that I would receive a certain pension amount from SS. I used this info in my retirement planning.

About three years before I retired, I learned at a state retirement seminar that that was not true. Not true if I were to receive a state pension. I was told SS would reduce my SS amount by about 60%. Of course, I learned nothing about this from SS!

Because of this shortfall, I continued working past my 65th birthday, though that was not my original plan. When I turned 65, I applied to start my SS pension and got the small amount of about \$407/month.

I am now retired. SS has reduced my monthly payment by 56% because I am "double-dipping"—their word.

My word—STEALING. I earned that money. If I had a pension from a private employer, SS wouldn't reduce my SS pension. As I said, I was depending on that money for my retirement. I find it difficult to pay my bills without that money.

This is most unfair. It angers me. The government is reducing my pension so it has money to give to the top 5% for tax cuts. Or to fund that illegal Iraqi war.

SS is a safety net for tens of millions. By subjecting me to the unfair GPO/WEP provisions, Congress has cut a hole in my safety net.

I expect Congress to quickly repeal the GPO/WEP provisions.

Statement of Janet Marie Bessler, Medina, Ohio

I have been retired for 10 years and in that time, I have been cheated out of about \$60,000.00 because of the Government Pension Offset. Can you tell me how anyone can feel that this is fair? Boy, what I could do with that money. Maybe I could maintain my comfortable, independent life style, even after I lose my husband if I should. That is a lot of money and how dare someone decide that those of us in Ohio should not be allowed to double dip! My friend in Iowa can. She gets her teacher's pension and full Social Security. My husband, if I pre decease him, will get my full pension because he did not earn it. But, if he goes first, I will again be subjected to the Government Pension Offset and I will get over \$200.00 less then him. I want so much to be able to maintain our lifestyle, not be financially dependent on anyone and stay in our little house here on Heather Lane. Please help me do that. Please do all that you possibly can to repeal the Government Pension Offset. It is stealing from me and many people just like me and just has to be corrected. I don't care if it can't be made retroactive. Just start right now letting us have what is ours. That is the only fair thing to do. We are at your mercy and should not be. Do the humane thing and correct this horrible mistake made years ago and make it right with us. It is really getting harder and harder to name priorities. I went to the dentist yesterday and it cost me \$164.00. I don't have dental coverage—don't feel that I can afford

it. But, give me what is rightfully mine and what will I do? I will spend it to maintain my life and help the economy at the same time.

Thank you so much and please do what you know in your hearts is the right thing to do.

**Statement of George Avak, California Retired Teachers Association,
Sacramento, California**

Chairman Thomas and members of the Committee, my name is George Avak and I am president of the California Retired Teachers Association. We are a non-profit organization with 53,000 members, and we represent the interests of the 170,000 retirees who receive a pension from the California State Teachers Retirement System (CalSTRS). I want to thank you for convening these hearings on alternatives to strengthening Social Security, America's fundamental safety net for retirees.

We believe that a basic premise of strengthening Social Security is to keep faith with its promise of ensuring that older Americans do not fall into poverty at the end of their working lives.

The CalSTRS system is not integrated with Social Security, so many of our members are victims of the Windfall Elimination Provision and the Government Pension Offset. These two penalties remove that financial safety net and we find our members suffering from unexpected income losses late in life. Many women are plunged into poverty when their husbands die and they are denied any survivor's benefits from Social Security due to the Government Pension Offset. Other teachers find their summer work, when they typically paid into Social Security in order to support their families during the school-year break, is discounted in retirement when they receive thousands of dollars less than they would have if they had not been teachers.

The underlying assumption seems to be that teachers have their own pension and that should protect them from poverty. The sad truth is otherwise. CalSTRS conducted analyses in 1998 and 2005 on the adequacy of the pension benefit they provide, and in both instances found many lagging behind the amount of income they need to maintain an adequate lifestyle in retirement. Even with long years of teaching service, California educators who retired before 1998 were only able to replace about 58 percent of their income—far below what experts consider to be adequate. The typical female retiree receives less than \$2,000 a month from her teacher's pension, hardly sufficient in a high-cost state like California. Unlike Social Security, which provides full cost-of-living increases annually, teachers' pensions in California are only protected at 80 percent of their original purchasing power.

In addition, many of our members only found out about the WEP and GPO when they filed for their benefits. By then, it was too late to make alternative financial plans to ensure a secure retirement. Worse, many others mistakenly receive benefits for years and then are forced to pay back all money received—in one instance more than \$40,000. In most instances, these people relied in good faith on estimates of benefits provided by the Social Security Administration itself. The Social Security Administration itself has admitted that it overpays upwards of \$335 million a year in mistaken benefits. If Social Security doesn't know who is affected by these penalties, how can we expect that those subject to them will understand them?

Beyond the policy itself, you have to understand the personal financial suffering many people have endured because of these penalties. We have collected many, many such stories from our members and I want to share some of those with you today.

Ruth Benjamin of San Diego had planned on Social Security payments of approximately \$800 per month when she retired, because that is what the Social Security Administration told her to expect. Instead, due to the GPO, she receives only \$216 per month plus a teacher's pension of about \$700 per month. Her husband is a retired New York City Police Department officer, who receives a police pension of approximately \$1,500 per month plus a Social Security benefit of \$1,000 per month. In their retirement planning, they opted to take a higher police pension without survivor's benefits because they believed Ruth would be adequately provided for with her teacher's pension and Social Security. Now, if she becomes a widow, she will have to survive on income of less than \$1,000 per month due to these penalties.

Wanda Moore of Fresno was married for 38 years to her husband, a barber. He paid into Social Security for 40 years and died before collecting any benefit. She was initially told she would receive a survivor's benefit of \$496 per month from Social

Security before that payment was eliminated under the GPO because of her teacher's pension.

Carol Huntsman of San Diego began her teaching career at age 36 and was only able to teach for 20 years before retiring in 1996 with a monthly pension of \$700. The twenty previous years she had worked in Social Security-covered employment was reduced in value by 60 percent, or \$223 per month under the WEP. Fortunately in 2000 her teachers' pension was increased under a law that provided minimum pensions to teachers with 20 years or more of service.

Georgia Beno of Santa Ana taught for 32 years before she retired in 1989. She receives a pension of about \$2,100 a month now. But she lost \$900 a month income from Social Security when her husband died in 1999 and she was told she was ineligible for a survivor's benefit. Since then, her health insurance and rent and other expenses continue to increase. She hasn't taken a vacation in four years, digs into her savings each month to meet expenses and still has to rely on her family to help pay her bills.

Claire M. Koronkiewicz of Palm Springs taught for 30 years in California before retiring in 1986. Today she receives a teacher's pension of about \$1,800 per month, after taxes. Her husband, a Purple Heart veteran of General Patton's 3rd Army, had a modest income as a worker in the floral industry in Los Angeles for 30 years. He died at age 65 after receiving three years of Social Security benefits. Claire was told she was eligible for \$374 per month in survivor's benefits—before that was eliminated under the GPO. Since then, she has had to sell her home because it was too expensive to maintain and has dipped into her savings earlier than planned to meet her living expenses.

Marylyn McInnes of Visalia taught for 31 years before retiring in 1998. Her husband owned his own carpet cleaning business for 15 years and, as a self-employed individual, paid both the employee and employer shares of the Social Security tax. He received Social Security for 2 years before he died. When Marylyn applied for her widow's benefit, she was told she did not qualify because of her teacher's pension and she lost \$400 a month in income.

Elbert Bade of San Diego had a 20-year career in the U.S. Air Force. When he retired from the Air Force, he had a choice of a second career as a teacher or in the aerospace industry. Unaware of the GPO and WEP, he figured his future retirement income—assuming money from a teacher's pension and Social Security—and determined that he could afford to become a teacher. He taught for 23 years and retired in 1997. When he applied for Social Security, he was informed of the penalties and saw his retirement income reduced by \$8,400 a year. "Teaching's a great career and very satisfying but no one tells you they're going to jerk your Social Security because you were a teacher," he told us.

What all of these people have in common is that they worked hard at public service jobs all of their lives. They raised families and took care of themselves. They recognized they wouldn't receive a full Social Security benefit, but they believed they would receive what they had earned and been promised.

There is yet another unintended consequence of these penalties. California, like many states, faces severe teacher shortages in the years ahead—an estimated 100,000 new teachers will be needed in the next 10 years just to replace retirees; more will be needed to accommodate our growing population. Many of our best teachers come from other professions. Typically they are unaware that they are giving up significant Social Security benefits in retirement to make a switch to public service, often at a lower salary than they were receiving from their first career. An estimated 50,000 current teachers fit this profile, and will retire with 20 years or less teaching service. That means a substantially smaller teachers' pension and a significant loss of Social Security income. They willingly make the sacrifice in salary during their working life; they are forced to sacrifice in retirement.

We recognize that there are financial challenges facing Social Security, if not a crisis. We appreciate, however, that growing numbers of Congressional Representatives understand that these penalties have not had the intended effect, that they penalize hard-working people of modest means. I would note that 251 Congressional Representatives have already signed on to HR 147, which would repeal these penalties. Any reform of the Social Security system must restore its foundation in fairness. On behalf of the California Retired Teachers Association, I would say that you can do no less.

Thank you.

Statement of Joyce R. Elia, Mission Viejo, California

As the Committee reviews the multitude of issues associated with Social Security, I ask members to consider correcting a “fix” that was initiated in 1983, and, to also not make similar mistakes this time around (such as privatization which will line the pockets of Wall Street and cost billions of dollars to implement). Congress has made the same mistake as many corporations recently in the news—they have “spent” the hard-earned pension funds of workers during the stock market’s heyday and have now been “caught short”. Workers in this country have had enough of the corporate greed and fiscal irresponsibility of government. We are tired of “paying” for everyone’s mistakes, while the corporate CEOs continue to live the “good life” with no understanding, and with a complete lack of conscience, of how the “real” people in this country live.

The private sector continues to follow the government’s lead in cheating employees out of their retirement benefits (United Airlines, possibly General Motors, to name a few), with the government’s blessing. At the same time, like Congress, the retirements for the “chosen few” are preserved. The hardworking, tax-paying individuals of this country deserve better and we expect you to act responsibly. President Bush espouses a Christian ethic. There is absolutely nothing “Christian” about defrauding American workers with high taxes and erosion of their pensions.

As a current government (court) employee and former private sector employee, I am seeking your support of HR 147, “Social Security Fairness Act,” to eliminate the Government Pension Offset (GPO) and Windfall Elimination Provision (WEP) to Social Security. This legislation was enacted in 1983, during a period when Congress was looking for ways to reduce the cost of Social Security. Their decision to place that burden on the backs of government workers and teachers has created a fraudulent and discriminatory solution which wrecks financial havoc on the lives of affected individuals.

The GPO and WEP will greatly affect mine and millions of other Americans’ ability to collect the full Social Security benefits that they have earned and to which they are entitled. This is a non-partisan issue that transcends politics and affects voters of all parties.

Three years ago, a co-worker returned from her “retirement planning session” crestfallen to learn that the small pension which she had earned working for the Orange County Superior Court was going to dramatically impact the receipt of her earned (as well as her ability to collect her husband’s earned) social security benefits. Her situation will become worse, should her spouse predecease her. She will not be eligible for **any** spousal benefits, which he worked a lifetime to earn in his effort to provide for his wife. At the time, *I was totally unaware of these two laws and their impacts*. I had worked in the private sector for many years before “retiring” to raise a family.

When I returned to the workforce in 1994, to work as a Senior Administrative Assistant to the CEO of the South Orange County Municipal Court (unified to Superior Court in 1998), *I was not informed by the County/Court* that paying into the County retirement system would negatively impact my ability to collect mine and/or my husband’s hard-earned Social Security benefits. The County retirement plan is predominantly self-funded by employees, with only a small portion of the contribution coming from LOCAL (not Federal) taxes. I erroneously assumed that any pension I earned would *supplement* my earned Social Security benefits. These laws force me to either leave my job, friends and an important part of my life prior to ten years of service (vesting) or relinquish my own and my spousal rights to Social Security. It punishes me for doing what the government told me to do—plan for the future. (I would have been better off staying at home and letting the government subsidize me.) The outcome is discriminatory and dishonest, as well as disheartening, to a loyal hard-working employee.

The laws are arbitrary and selective—being particularly discriminatory to women. Women receive only half the average pension benefits received by men and these laws further reduce that small sum.

Please preserve teachers’ and government workers’ retirement benefits that they have paid for and deserve by passing HR147, which will repeal legislation which in actuality is **“legalized fraud,”** (i.e., the government has taken, or in many cases, continues to take monies via social security taxation, which it has no intention of returning by way of future benefits). Numerous teachers and public workers (many of whom are single Moms), have part-time employment to make ends meet. From those private-sector checks, social security is being deducted—when under current laws, that money will never be returned. If private companies acted in such a manner, they would be charged with FRAUD.

I have included a briefing paper which expands on the legislation’s impacts.

I urge Congress' support and passage of this important legislation. I also urge Congress to look into other areas for savings: reduction/restructuring of Congressional retirement benefits; reduction in foreign national benefits, fairer taxation, to name but a few.

I do not support private accounts OR melding government/teacher pensions into Social Security. This practice would place yet another undue burden on this class of individuals. Their pensions should be treated in the same manner as private sector retirement plans—separate and apart from Social Security.

Additionally, Congress makes it increasingly difficult for individuals and families to save for their retirement, especially when the *interest* on SAVINGS accounts are taxed.

BRIEFING PAPER RE HR 147 and S 619

SOCIAL SECURITY FAIRNESS ACT

On December 16, 1773, early settlers to this country staged a Tea Party in Boston to demonstrate their unwillingness to be unfairly taxed. It was a fairly small protest. 232 years later, a much larger group of American voters (public workers and teachers, active and retired) wishes to clearly and emphatically send a message to the President and Congress, that **THEY** are unwilling to continue to be unfairly taxed.

MYTH #1: The myth is that this is **unearned** “double dipping”.

TRUTH: The Windfall Elimination Provision (WEP) and Government Pension Offset (GPO) laws prevent public workers and teachers from receiving their justly earned retirement benefits. **The two laws cause public workers and teachers to DOUBLE PAY but receive single benefits.** The various pension funds of public workers and teachers are primarily self-funded with very little in the way of outside contributions. The outside contributions come from LOCAL not FEDERAL monies—no relation to Social Security monies.

EXAMPLE: A working person is required by law to hold two insurance policies. After a number of years of paying the premiums, one of the insurance companies notifies the worker that he will no longer be covered under the policy, but will be compelled by law to continue paying for it.

On December 27, 2002, Fox Channel Headline News reported that the Social Security Administration currently has agreements with 20 countries, which permit foreign nationals who pay into retirement systems in their home countries and the United States, to collect benefits from both sources. The story reported there is currently discussion to extend this practice to Mexican nationals as well.

The Federal Government should recognize naturally born American citizens who work as teachers and public employees as well as foreign nationals.

MYTH #2: It is a myth that over the long-term the Federal Government saves money by denying public employees and teachers earned Social Security benefits.

TRUTH: It is true that the National Education Association reports that affected recipients lose an average of \$3,600 a year due to the GPO—an amount that can place a recipient below the poverty level. When individuals do not have adequate dollars to meet their most basic needs, they stop seeking preventative medical care, are unable to fill needed prescription drugs, have inadequate nutrition and often are forced to live in less than sanitary and unsafe conditions. All of these workers have paid for benefits that these two laws prevent them from receiving. Many of these workers are single parents or women who need their paid-for Social Security benefits to meet basic expenses.

RESULT: *There is no monetary savings.* The government will need to provide financial assistance to these individuals through more expensive government programs (welfare, food stamps, medical plans, long-term care and housing assistance). It is better to remove discriminatory prohibitions to earned benefits so that seniors can avoid seeking emergency care for catastrophic illness. The added dollars will be put back into the economy and the discriminatory effect of these statutes would be eliminated.

FACT: Workers have not been informed of this legislation by government employers and teaching associations and are misled by Social Security estimate statements which do not reflect these offsets. Most employees are unaware that they have relinquished their entitlement to earned or spousal Social Security dollars until they are within a few years of retirement and attend a retirement planning session. At that time they are devastated to learn that they will not be receiving their anticipated Social Security funds. **These are workers who have**

faithfully paid their full contributions to a system that *takes their money and provides no benefits.*

REALITY: Americans have been told for decades by government experts that it is an individual's responsibility not to rely solely on Social Security for their retirement incomes. Often, when children leave the nest, the wife/mother will seek outside employment to assist her husband in building their retirement. When these individuals choose to become public employees or return to the teaching profession, they are not told by their employers (through non-disclosure of the impacts of the GPO and WEP) that the monies they contribute to separate pension plans will not be returned to them *in addition to* earned Social Security benefits.

Private sector individuals may collect multiple pensions (many through employer-only contributions) PLUS earned Social Security benefits . . . why the distinction for public workers and teachers?

RESULT: As more and more public workers and qualified teachers become aware of the impact of this unfair and discriminatory legislation, they will be less inclined to apply for jobs in those areas. This country already faces a critical shortage of skilled teachers. The condition is certain to worsen. Fewer teachers will chose to return to their classrooms after extended leaves to raise their children, while young people will be less inclined to consider a teaching career. States, counties and cities will find smaller and smaller pools of willing/skilled applicants to staff government offices, courts, libraries, airports, divisions of Motor Vehicles, transportation departments, etc.

Non-partisan issue. Goes beyond politics. Voters of all political affiliations are affected. (*This is a national problem—there are affected people in ALL states. The number of people impacted across the country is growing every day as more and more people reach retirement age.*) This is the same group of voters (baby boom) that were willing to stage protests in the 1960's to bring their "causes" to the street to effect change by gaining national attention for unfair government practices. As more voters become aware of these unjust laws and their impacts, they will be angry and seek to blame elected officials.

Most Americans are unaware that promised Social Security benefits are not legally guaranteed. They expect adequate Social Security benefits and assume government will pay all monies due because government has faithfully collected their "contributions". Especially when it is widely known that the Federal Government extends Social Security benefits to people who have **NEVER** paid into the system.

These laws are not understood. It makes retirement "planning" inaccurate. (*Many workers rely on misleading Social Security Administration statements that fail to take into account the GPO and WEP when projecting benefits.*) It makes the SSA information statements a *lie* because workers are led to believe they will receive these funds because the government is or has taken their money. This is, in essence, a government "bait and switch" tactic.

Severely impacts women. Women receive only **one-half the average** pension benefits received by men. When they attempt to collect anticipated, earned Social Security benefits and discover that their benefits are substantially reduced, they find themselves below the poverty level, after a lifetime of work.

Working wives should have the same rights to their spouse's **full** benefits as non-working wives. (*The GPO/WEP causes affected employees to lose up to 60% of the benefits they earned themselves.*)

Widows should receive **full** Social Security spousal benefits. The deceased spouse worked his entire life to provide for his widow. His benefits are **her** benefits.

Laws are arbitrary and selective. The burden falls squarely on pocket-books/wallets of certain public employees and teachers. (*9 out of 10 public employees affected by the GPO/WEP lose their entire spousal benefit, even though their spouse paid Social Security taxes for many years while non-affected workers who have paid into multiple private retirement systems are not affected by these laws. The discrimination exists only for those who work in the public's interest.*)

These laws are discriminatory, punitive and create a climate of bad faith. They have caused an unjust and unfair inequity between public and private pension recipients. The laws diminish the value of a public employee's or teacher's contribution to this country in relation to the value placed on the contributions of workers in the private sector . . . for what reason?

REQUEST: We want the law applied equally to all employees. The only way for this to be accomplished is for these two statutes to be repealed. We urge your support and the support of all of Congress and the President for passage of HR 147 and S 619.

President Bush has claimed that he wants to bring fairness to the taxation of the American people. Support of HR 147 and S 619 is a perfect

place for him to right a wrong and bring equity to an unrepresented and growing body of unfairly taxed voters.

Statement of Kenneth Basil Jackson, Jr., Glendale, California

The solution to the SSA actuarial imbalance is simple The Honorable Charles B. Rangel has found the most economical and efficient fix for the problem.

A 1.89 to 2 % increase in the FICA Tax. This amount is 13.79 @ 1.89% per week per worker @ 35k/yr salary. Simple to start and easy to repeal when no longer need. Add to this an increase in the FICA salary cap to 140,000.00 and the problem is solved.

There is a larger problem to face it is the loss of the baby boomers buying power in the years of 2015 to 2030. This decrease in buying power may lead to one of the largest recessions in the history of the United States of America, if not a depression.

If the United States of America is forced to repay 5 Trillion in SSA reform transition costs with interest, plus 2 to 3 Trillion in General fund budget deficits, plus another 4.6 Trillion to stabilize SSA, China will become the last great super power. DROP THE PRESIDENTS SSA REFORM PLAN.

The real priority problem is to find a way to keep the economy growing as the baby boomers retire. The best way to do this is to add incentives and benefits to the safety net of Social Security. This can be done by adding a private account to the SS benefit. This account must be in addition to all other pension plans and programs. Participation in this plan must not limit or interact with any other plans or programs now offered or begun in the future.

SOME BASIC REQUIREMENTS FOR A PRIVATE ADDITION TO THE SSA BENEFIT.

- This is in addition to the SS FICA.
- There is a higher limit on the annual contribution say 20k dollars/year.
- The FICA salary cap shall rise to; \$140,000.00 .
- The money is exempt from state and federal tax.
- The money grows; tax free.
- The money can be available from say 59 to 64 on, as a monthly pay out over 30 years.
- THE CONGRESS IS PRECLUDED FROM ANY FORM OF BORROWING FROM THIS ACCOUNT, THE EXECUTIVE BRANCH IS PRECLUDED FROM ISSUING ANY PROCLAMATIONS OR EXECUTIVE ORDERS ATTACHING OR USING THESE FUNDS FOR ANY; PERPUS OTHER THAN THE BENEFITS OF THE OWNERS . FURTHER THERE WILL BE NO COMMINGLING OF THESE FUNDS WITH ANY OTHER AGENCY OR BRANCH OF THE U.S. GOVERNMENT. NO LIEN OR ATTACHMENT OF THE "PRIVATE PLAN'S" LEGALLY OBTAINED AND DEPOSITED FUNDS BY ANY COURT, JUDICIAL ENTITY, OR ENTITY WILL BE PERMITTED BY THE U.S. GOVERNMENT. THESE FUNDS WILL BE INVESTED AND MANAGED AS A BOND FUND. THE OBJECTIVE WILL BE OPTIMUM LONG TERM YIELD. ALL U.S. GOVERNMENT ISSUED AND GUARANTEED OPENLY TRADED U.S. GOVERNMENT BONDS AND NOTES, OF ALL MATURITIES SHOULD BE USED AS NEEDED.
- The operation of the "private plan" should mimic the operations of a bond mutual fund.
- Interest compounding and, pay outs should be made quarterly.
- A \$3.00 minimum per week contribution with a \$20,000.00 yearly maximum.
- Extra deposits should be accepted via inter bank money transfers or EFET deposits to the account, also deposits can be made at any bank cash or check. Subject to the prevailing money laundering laws on the books.
- All deposits will be tracked by SSA and reported to the IRS as exempt income (not taxable) but reported.
- The total of all deposits will show up on the W-2 form.
- The amount to be deposited via weekly payroll deduction should be easily changeable, up or down.
- The interest paid is as close to the coupon as clipped value as possible.
- Once the agreed upon retirement age is reached the right to start, stop and restart benefit pay outs should be available.

- **Each baby born an American Citizen at the issuance of his/her SS card will have 3.00 dollars deposited into his/her private plan, as a one time retirement grant.**

The Idea here is to reach the first \$1000.00 in the account A.S.A.P. For a new worker entering the work force and, living at home with his/her parents making extra deposits as savings would make for an comfortable retirement. When this worker moves up the pay scale increasing the weekly deposit and or making extra deposits will further increase the additional income provided by the "private plan".

The power of large scale buying of bonds can reduce the fixed cost of the operation to the .5 % to .2 % level.

This plan has the potential to transform the idea of retirement living. This plan can double the safety net for new workers entering the labor pool. In order for us older folks to take advantage of this system we would have to increase the amount of our initial deposits. The best use for us older folks would be an cash trap, say after the sale of a house, what should you do with 50k excess profit? shelter 20k, and let it turn into over \$159,000.00 in 15 years. That points to the 6 trillion dollar question, why has not the brain trust that Bush has assembled figured this out. Is there some other reason why some thing like this is not on the table and, up for debate. There is some thing going on and they are not talking. WILL SOME ONE IN THE ADMINISTRATION PLEASE TELL THE TRUTH, WHAT IS GOING ON.

This plan will enhance the savings rate in the country. The number of seniors on welfare will decline. The spending power of seniors will start rising just as the population starts to gentrify. As the baby fizzle of the, late 70's early 80's, moves to the workforce center stage, the spending power of the retired will be on the rise. To days pre-tweens will be entering the work force with their greater numbers and, will have spending support to maintain job growth. The pre-tweens will have at least a chance to establish themselves as an economic force. The number of seniors retiring to poverty should begin to approach 0, because of the doubling of the safety net benefit. This plan has one goal to produce more customers. This country needs more customers with money.

GROW OR DIE

I believe that adoption of a SS ad on private account will fundamentally change the idea of retirement living. If every body is given a chance to excel and save like the wealthiest of Americans retirement poverty can be eliminated.

RUN A COST ANALYSIS OF THIS PLAN AND COMPARE.

Statement of Roger Pond Jones, Auburn, Massachusetts

It is my opinion that when our Government takes moneys from people leaving them with the impression that this is money being saved for retirement and not a government expense (tax) item that that money should be returned to them upon retirement. (With interest based upon the average market values over the past sixty five years.)

If citizens have paid in they should get back at least what they paid in.

Citizens have been allowed to look at Social Security money as THEIR MONEY. Obviously it is not THEIR MONEY if they can not get it back upon retirement.

If Social Security is a social program to bail out people who have made poor judgments during their life times or fallen upon hard luck then make it clear that Social Security is a tax not a savings program and not owned by anyone but the government.

