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SOCIAL SECURITY BOARD OF TRUSTEES' ANNUAL REPORT ON THE STATUS OF SOCIAL SECURITY RETIREMENT AND DISABILITY PROGRAMS

HEARING

BEFORE THE

SUBCOMMITTEE ON
SOCIAL SECURITY AND FAMILY POLICY

OF THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

ONE HUNDRED FOURTH CONGRESS

SECOND SESSION

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SOCIAL SECURITY BOARD OF TRUSTEES' ANNUAL REPORT ON THE STATUS OF SOCIAL SECURITY RETIREMENT AND DISABILITY PROGRAMS

FRIDAY, AUGUST 2, 1996

U.S. SENATE,
COMMITTEE ON FINANCE,
SUBCOMMITTEE ON SOCIAL SECURITY AND FAMILY POLICY,
Washington, DC.

The hearing was convened, pursuant to notice, at 10 a.m., in room SD–215, Dirksen Senate Office Building, Hon. Alan K. Simpson (Chairman of the subcommittee) presiding.

Also present: Senator Rick Santorum.

OPENING STATEMENT OF HON. ALAN K. SIMPSON, A U.S. SENATOR FROM WYOMING, CHAIRMAN, SUBCOMMITTEE ON SOCIAL SECURITY AND FAMILY POLICY

Senator SIMPSON. Good morning. Welcome to this hearing of the Subcommittee on Social Security and Family Policy.

We are meeting at a time of intense Senate activity, so I am grateful for anyone who does show up. Even if we did not have intense Senate activity, very few would show up. That is my experience when we deal with this issue, if I may throw out that observation.

In June of this year we received the Social Security Board of Trustees' annual report of the status of Social Security retirement and disability programs. Today we convene to discuss the findings of the trustees and the need to properly educate our fellow Americans as to what they are telling us, because it will ultimately determine whether and how we can act to restore long-term solvency to the Social Security system. We must know that.

Those of us in elected political life cannot begin to act upon this information so long as there is public ignorance of all of this and so long as the electorate's views about Social Security are at odds with the facts as we have found them to be through the Bipartisan Commission on Entitlements and Tax Reform.

The facts are these, I think we can all agree, the system continues to inexorably lurch toward trust fund insolvency. That is the truth. That is in the report, that is what it says; 75 years down the road, that is it, and sooner.

With each passing year we move closer to this great financial canyon. The year in which we face the first deficits in Social Security, when revenues into the system will not meet all projected benefit payments that have been promised to the American people, has again crept a year closer, to the year 2012.

Even if we had saved every single penny of the trust fund to pay for Retirement, Survivors, and Disability benefits it would be totally exhausted—exhausted, or whatever term you want to use for that, bankrupt—by the year 2029, if we did not do something.

At that time, projected revenues, interest, and all of the things we will hear about today would pay for only 76 percent of the benefits that would be due. We all know this. That is what it says here.

That is the optimistic view. It presumes that we can draw down a trust fund to pay for benefits between 2012 and 2029. That is what we will do. But, in reality, the money to pay for those benefits, by law, will come from general revenues. That is the double hit I often talk about. People would see their general taxes raised in 2012, and the system would still go bust in 2029. That ought to send shivers up the spine of the public and the Congress, but it really does not.

Everyone who has a stake in the future stability of retirement planning and lifestyles, and that is all of us, needs to be aware of the critical information in the trustees' report, this little document. People should get it.

The trustees are telling us once again that the trust funds do not meet the long-term tests of financial solvency. That is what they tell us. There is no mistaking the direction in which Social Security is moving. We need to examine this issue, debate our options honestly, and take action swiftly.

That recommendation is peppered throughout this document, words like "immediately," words like "taken soon," words like "early warning," words like "urgent priority," words like "quickly," and "quickly" again on page 11, "earliest possible enactment" on page 10, "prompt, effective, and decisive" on page 10, "enacted soon," page 10, is what it says.

So we have to do that if we are going to enact changes that are fair, gradual, and planned. The alternative is change that is drastic, unfair, and dramatic.

Change must come, because we are on an unsustainable course. Future retirees who have a vital stake in the future of Social Security are looking to us, including current and near-term retirees, to do our bit to solve the long-term Social Security solvency problem.

I think one key to a fair solution is ensuring that the American public is fully aware of this issue and educated, truly educated, about the various options that are available to fix the problem. There is a crying need for better education, not only about Social Security, but in the whole area of retirement planning.

If anybody thinks that Social Security will be their retirement, it is a sad, sad future. It is not. They should be doing other things, because this program is an income supplement. It was created as an income supplement, that is what it is.

They need to be educated, everyone. The better-stocked then will be the marketplace of ideas. But hiding the facts from the public in the desperate hope that they will simply go away is a disservice to the American people, in a sense quite a duping of them. They need to be fully aware of what the trustees of the Social Security program are telling us in their annual reports. Everyone who stands to retire sorely needs to know that change to the Social Security program is coming. It has to come, and it will come either in the form of reduced benefits or increased payroll taxes.

There really are no—unless somebody is going to tell me what it is today—choices if we do not "raise" the payroll tax, reduce the benefits, or go into some other financing scheme, or whatever, whatever, whatever. I would like to hear that. We owe them honest information. Only when they are so informed can Americans then hope to plan for significant change.

There is clear evidence that education plays a constructive role in helping people to understand and to plan for their own retirement needs. Surely then education is similarly critical in proving the workings of our single most important retirement system, and that is what it is, and the Commissioner will share that with us today, and she is so correct.

It is our most important legacy, our most important retirement system. But, as changes to Social Security evolve in the early 21st century, people, of necessity, will have to play a greater part in planning for their own retirement. We must again become a Nation of savers, as we were at an earlier time in this century.

People are going to have to plan for their retirement. The baby boomers are already thinking that they can retire earlier than the present group, and that they will have the same level of benefits when that happens. That is the greatest dupe of all.

At the very least, I think we must not delude or mislead workers into believing that current retirement programs are facing a rosy future. All three foundations of the Nation's retirement scheme, Social Security, pensions, and personal savings, face very, very uncertain futures. The American public deserves to know what changes are likely or inevitable, given demographic trends.

The Social Security Administration, despite its current charter—and this is very disappointing to me, to all of us—which guarantees its political independence—we gave the Social Security system, this remarkable agency, complete independence, free of Congress—has consistently failed to come forward to propose any solutions to the obvious insolvency, long-term insolvency of the program, for which it is wholly and totally responsible.

Yet, it continues to conduct a public relations campaign that fundamentally misrepresents reality, and packages, such as the Social Security teachers kit, which we will review a little later—a package sent out to high schools across the country to assure young Americans that all is well. Young people, on the Internet and by other methods of communication, are saying all is not well. Be sure you know what young people are saying. Whatever the education process is, they ain't listening.

They are becoming increasingly aware of the problems that confront Social Security in the future. When knowledgable, smart young people discuss the material in these kits, their cynicism about the whole system of government cannot help but grow.

As for the unaware, they even become then more complacent and the blind trust they place in the future promised by Social Security leaves them ill-prepared for the changes that are certain to come.

The Social Security teachers kit tells us that Social Security benefits are assured "because the program is compulsory and can count on future income from taxes." It goes on to state that today's young workers can be confident of future benefits because of the "growing financial strength of the system and the build-up of reserves to pay future benefits." We all know that the facts simply do not support those claims.

Current Social Security promises can only be sustained if, in the near future, like "quickly, immediately, soon," and so on, we agree to raise payroll taxes, I guess, or cut the benefits, I guess, or something else that we can guess about. Moreover, the system cannot in any way be said to exhibit "growing financial strength" when the doomsday date grows closer every year. How can that be? What a dupe.

The doomsday date was 2063 in 1983, and today the doomsday date is 2031. So how do you describe that as "growing financial strength?" It is a dupe. It is not right, it is not fair.

I think the Social Security Administration has to come clean and bring forward the real, honest facts, not bureaucratic CYA stuff, but honest facts. The agency must correct these errors and misleading statements. If it cannot continue to promise the delivery of benefits which current law cannot support—current law cannot support these benefits; we know that, the Commissioner knows it, the trustees know that—it means that we will change current law.

Guess how we will change it. It will put a further burden on the very people we say we are going to take care of. They are the ones who will pay. The seniors will not be paying. No one over 60 is even affected by whatever is being suggested in any form, bipartisan or partisan. Some say over 50 are not affected.

So it is with that principle in mind we will begin today's discussion of the Social Security Trustees' report. We will hear today from three very capable witnesses. First, the Commissioner of Social Security, Dr. Shirley Chater. She will be followed by the two public trustees of Social Security, Marilyn Moon and Stephen Kellison.

I welcome you to these proceedings. We are seeking honest information and we are all entitled to our own opinion, but we are not entitled to our own facts.

[The prepared statement of Senator Simpson appears in the appendix.]

Senator SIMPSON. So we will go forward with the testimony, and I would ask Dr. Chater if she would come forward as the first witness on the list. I thank her very much for her courtesy. She has always responded to me in every inquiry and has always been available and has never attempted not to be quite accessible. Accompanied by Mr. Goss. Would you give your position, Mr. Goss?

Mr. GOSS. Deputy Chief Actuary, Social Security Administration.

Senator SIMPSON. I thank you, and look forward to the statement of Dr. Chater.

Please, Doctor.

STATEMENT OF HON. SHIRLEY S. CHATER, COMMISSIONER OF SOCIAL SECURITY, WASHINGTON, DC, ACCOMPANIED BY STEVEN GOSS, DEPUTY CHIEF ACTUARY, SOCIAL SECURITY ADMINISTRATION

Dr. CHATER. Thank you, Senator Simpson. I am very pleased to be here to talk with you about the status of the Social Security Old-Age and Survivors Insurance and Disability Insurance Trust Funds.

In your specific invitation to me you asked me to address four questions. First, what does the 1996 Trustees' Report tell us about the state, current and future, of the trust funds? Second, what has changed in this year's report? Third, how soon would I recommend that Congress take action to restore the program's long-term solvency. Fourth, what are the public education efforts that we have taken to educate the Nation about the Social Security program? I plan to address each of these questions.

First, the 1996 Trustees' Report. That report, which you have before you, tells us that, as a whole, Social Security trust funds took in $399.5 billion in 1995, while paying out $339.8 billion. By December 1995, the assets of the OASDI trust funds rose to a total of $496 billion. That is an increase of $59.7 billion from the trust funds' $436.4 billion in December 1994.

Interest earnings on the invested assets of the OASDI trust funds were $35 billion in 1995, an effective annual rate of 7.8 percent.

There have been some changes since last year's report. As you know, the report projects the long-range actuarial balance of the trust funds. The long-range actuarial balance is the difference between the annual income and costs over the next 75 years. Given this analysis, the OASDI programs will have an actuarial deficit for the period ending in 2070.

The deficit estimates have changed very little since last year's report. It is now 2.19 percent of taxable payroll instead of 2.17 percent in 1995. The deficit, as you know, is expressed in percentages rather than dollar amounts, due to the change in the value of the dollar over time.

The trustees, as you know, developed three alternative estimates for the trust funds based on economic and demographic factors such as unemployment rates, productivity increases, fertility and mortality rates, cost of living, as well as many others. The estimates range from low-cost to high-cost, while the intermediate set reflects the trustees' best estimate.

Under these intermediate assumptions, annual expenditures will exceed the trust funds' combined annual tax income in 2012. However, total income, including interest, would continue to exceed expenditures until 2019.

The funds would then begin to decline and would be exhausted in 2029, although Social Security would still take in over $2 trillion in revenues for the trust funds in 2029.

Each of these dates is a year earlier than was estimated in 1995's report. However, as you may remember, the 1994 Trustees' Report also forecast 2029 as the year of exhaustion. The return to that date is largely due to some methodological improvements.

Nevertheless, the fact remains that Social Security will be there for the next 33 years, even if no changes are made to the program. I feel there is no immediate crisis. So, in answer to your question about how quickly I recommend congressional action on long-term solvency, I believe the earlier a bipartisan solution can be achieved the less dramatic the changes will need to be.

However, I do not believe that we should quickly make changes to this program without careful deliberation and bipartisan discussion. As the trustees concluded in their report, "we believe there is ample time to discuss and evaluate alternative solutions with deliberation and care. The size of the long-range deficit is such that long-range balance could be restored within the framework of the present program."

I feel that we must have an informed, bipartisan discussion about the issues which confront Social Security, both now and in the future. Informing the public about the program is a very essential part of this, so that everyone may participate in the national dialog.

This brings me to your final question about our efforts to educate the public about our program. For the past 18 months to 2 years, I have traveled to at least 150 cities, talking to both young and old about Social Security.

Second, we have sent out over 10 million Personal Earnings and Benefit Estimate Statements to everyone over the age of 60, and many others. We owe Senator Moynihan credit for initiating this effort.

We have developed, as you indicated, a teacher's kit, which has now been requested by about 15,000 secondary schools.

We have, fourth, launched a multimedia campaign with public service announcements that have been distributed to over 3,800 newspapers, and about 5,800 television and radio stations. We have met with journalists and editorial boards. We have written letters to the editor correcting misinformation.

We have received almost $4 million in donated air time broadcasting public service announcements, and hundreds of thousands have visited our Internet home page.

Social Security, as you know, offers financial protection to a majority of Americans, both young and old, each and every day. This program that supports our Nation's retirees supports also its workers and their families. Sixty years ago, we were able to come together in consensus to find Social Security.

In the years since, we have been able to make reasoned changes that have kept the program strong. Social Security is there for people now, both young and old, and by continuing a bipartisan tradition of collaboration, I am confident that working with you, together, Social Security can be made secure and will be there for many years to come.

I will be pleased to answer your questions, Senator Simpson. That concludes my oral presentation.

[The prepared statement of Dr. Chater appears in the appendix.]

Senator SIMPSON. Thank you very much, Dr. Chater. I read all of it, and it was of interest to me. You have summarized it well. I think, some things that have sprung from it with regard to the teacher's kits seemed to pique my interest. You say those kits were all requested by teachers, those were not just sent, they asked for them?

Dr. CHATER. That is correct. We sent notices—letters, if you will—to various high school principals across the United States and suggested to them that it might be helpful to have a teacher's kit to incorporate into government programs and the like. That is the number so far that have been requested.

Senator SIMPSON. The report of the Advisory Council is an important step for legislators and for the public in force feeding their education on this issue about Social Security's long-term financial problems. That was due to be released last January. Then there have been delays consistently. When do you expect this report to be released, and what is the delay here?

Dr. CHATER. I believe the delay is attributable to the fact that the Advisory Council is asking for more information. They are calculating more data, and they are circulating the report from time to time for editorial comments. Other than that, I really cannot address the issue. I was told personally that the report was probably going to come out by the end of August.

Senator SIMPSON. Yes. We will be looking forward to that. What education efforts do you expect the Administration will take in light of the 1996 trustees' report?

Dr. CHATER. Well, at the moment our educational program is geared primarily toward having people understand what the program is at present so they can better understand what some of the changes may be for the long-term future. We have put into place, as I indicated, many, many initiatives.

I must tell you, Senator Simpson, that the amount of knowledge that is out there, based on my experience, is very small. People simply do not understand what the program does. They do not understand how it is financed now and do not seem to have a very good basis for accepting or entering into a dialog about the future long-term solvency.

Senator SIMPSON. Do you feel that people that you meet in your travels believe that Social Security is their "retirement plan?"

Dr. CHATER. Many, particularly the low-income workers with whom I meet, feel very strongly that it is, indeed, their retirement plan because, simply, they have no other. Those who have been fortunate enough to have pensions, those who have been fortunate enough to have opportunities to save money, tend to reply to my questions about that, that it is part of the so-called three-legged stool.

Senator SIMPSON. Do you think that they recognize that this system, Social Security, pensions, and retirement, have unfunded liabilities of trillions of dollars, in the private sector, as well as the public sector; do they have an indication of that?

Dr. CHATER. No. My impression is that they do not recognize that, or the distinction between public and private plans.

Senator SIMPSON. But you realize that those are unfunded liabilities of trillions of dollars.

Dr. CHATER. Well, I certainly realize that, in private and other public pension plans, yes, there are liabilities. I think a plan that is funded by the U.S. Government through taxpayer payroll taxes does not have the same liability, simply because it is compulsory, it is mandatory, and people therefore continue to pay into the program. It is a Federal Government situation.

Senator SIMPSON. When this comes out from the Advisory Council in late August or whenever, what efforts do you expect to take, not waiting for next year, but now since you are an independent agency and directly charged with the preservation, administration, and success of this fund?

What do you expect that the Social Security Administration will do in response to the suggestions of the various options for reform that will come out? I mean, will we just look at those or will you and your administration make comments on those so we will know what to do as legislators?

Dr. CHATER. Well, first, I would like to say for the record, Senator Simpson, that, while we are an independent agency we are, according to the law, an independent agency "within the executive branch." So I want to, first, state that for the record.

What we are doing now is educating the American people about what the program is. I am pleased that you and others, as well as the Advisory Council reports that have been published in the newspaper, have encouraged discussion about the future long-term solvency, so people are becoming much more aware of the issues.

After the Advisory Council report comes out, of course, we will want to continue to study it, to analyze its findings, to look at the individual suggestions, as well as the interrelationship that will obviously exist between the various options.

Senator SIMPSON. If there were no changes in the benefit part of the program—is that what you are telling people, that there will be no changes in the benefit program in the out years, in the long-term?

Dr. CHATER. Oh, no.

Senator SIMPSON. Do you tell them that they will be reduced?

Dr. CHATER. Oh, no. I do not tell them that there will be reduction in benefits or increases in revenue.

Senator SIMPSON. Well, what do you tell them? How do you then come to your mission, which is to tell people that the long-term solvency of the program is 75 years? That is by law. So what do you tell them about how solvency is sustained over that 75-year period if you do not reduce benefits or increase taxes?

Dr. CHATER. I am telling them about the program as it exists today so they have a basis for understanding the recommendations that will be forthcoming, we presume, from the Advisory Council report.

When questions are asked about one of these recommendations versus another, I invite them to think through all of the analysis and the questions that need to be asked about each one, both pro and con.

Senator SIMPSON. Yes. But do you tell them that, at the age of 17 or 18, what they are then, I assume, high school, in the year 2029 when they are 53 that it will be broke unless you do two things, reduce the benefits or raise payroll taxes? Do you tell them that?

Dr. CHATER. I tell them that, first of all, it is very important that they understand that Social Security is there for them now because of the family benefits relating to Disability and Survivors Insurance. They do not know that; they think of it as a retirement program.

I tell them that long-term changes will definitely need to be made, and, of course, increasing taxes, increasing revenue, and decreasing benefits are ways to fix the problem.

Within this array of options there will be several from which we can select. I encourage them to understand that long-term fixes are necessary, that they read carefully the information, that they discuss it, that they come to understand how it can be fixed, and that we in government will work in a bipartisan way to come up with some of the solutions, for the solution, for the long-term solvency problem.

Senator SIMPSON. Do you tell them that when they are 65, which would be the year 2043, that the system will have been broke for 12 years, unless we do something? Then when you tell them about the two options of "raising revenue or reducing benefits," *i.e.*, raising payroll taxes or reducing benefits, what are the other options that you tell them in this vast array, as you describe it, of how to correct the system? What is the vast array other than raising the payroll taxes or reducing benefits? What is the vast array that you tell them about?

Dr. CHATER. Senator Simpson, I am not out there telling them what the Advisory Council is going to come up with. I am out there telling them now in our Phase I educational program what the present program is all about to prepare them for laying out the options that will be forthcoming from the Advisory Council.

Senator SIMPSON. But you are the Commissioner of Social Security and you are telling them, apparently—and I certainly commend you—that to get this system into long-term solvency we are going to have to, yes, raise more revenue, *i.e.*, I assume, payroll taxes, or reduce benefits—or what? What are the other things to restore long-term solvency which, by law, is your mission?

Dr. CHATER. I understand that it is my mission. But I also do not want to raise alarmist rhetoric that frightens people off and have them think that something will happen to benefits next month. So I am out there to reassure people that, when the time comes, which I believe is not now, we will want to have a bipartisan discussion involving the American people as well.

Senator SIMPSON. Well, you can see how thrilling those are in this body. Bipartisan anything on this? That is a vision of extraordinary dimension. Senator Kerrey and I are doing some things. We do not even know if that is a possibility. Others are doing things. Thank heaven, Senator Judd Gregg is in the game. There is a good bipartisan group. Senator Santorum, Senator Kerrey, as I said, and others are looking at it very carefully.

But, if you are using this kit to educate—and that is what you are saying—then here is the most disturbing thing to me. In the fact sheet on this kit—and I have read through it—it says, "Fact Sheet, How Social Security is Financed to Pay Benefits Now and in the Future."

It says this, "The Board of Trustees is required by law—by law—to report annually to the Congress on the financial condition of the funds and on estimated future operations. The report provides financial estimates for 75 years into the future." There is no indication in this fact sheet that the Social Security has failed this test. Why is that?

If you are educating the American people, why is there no indication whatsoever that this test has been flunked? That is what this says, that it is has been flunked, that the long-term solvency shows exhaustion. Why is that not here? Why is that not in this educational packet?

Dr. CHATER. Well, I do not know what fact sheet you have, but let me read to you what is in the teacher's kit, just one example. It says, "The annual long-range review of the Board of Trustees and the continued scrutiny of the Congress provides an ongoing alarm system. It assures that there will always be sufficient warning to make adjustments to the system to meet the needs of future generations." There are several other references to that concept throughout the teacher's kit.

Senator SIMPSON. Yet I think, if you are going to teach people, it would be well to teach them things that do strike a little fear into them. You say you do not like to do that, you do not like to get them worked up, or whatever that may be.

But it says on the first page of the trustees report, "A Message to the Public." It would be well, I think, to put that message to the public maybe in the front of the teacher's guide, where it says, "The Social Security trust funds, though solvent for the next 10 years and many years thereafter, are not solvent over the long term."

You are talking to young people who, in the year 2043, will be 65 years old and they already know, because of what you are telling them in here, that unless we do something this program will be insolvent in the year 2029, and that is when they are 52. Now, 52 to a 17-year-old is like Methuselah, something up in the area of 900 years of life. But I can tell you, that is what is not in here.

Then the second part—and I am using this Lesson Three Financing Fact Sheet II, one of two—that is disturbing is the next section. "Social Security is considered sufficiently financed when its scheduled tax and other income will meet anticipated benefit and administrative expenses over the next 75 years." You do not tell them that you have already failed that test, because this is not in any way solvent.

Then I must say, do you really believe that the average high school student who would read this kit would come away with any idea that the benefits promised to him or her will not be there without a payroll tax increase in the interim? Do they know that when they finish this educational exercise?

Dr. CHATER. Senator Simpson, I have to say to you that the purpose of the teacher's kit is not to address the long-term solvency issues. The purpose of the teacher's kit is to teach high school students what the Social Security program is all about. We have been doing this in high schools since the 1970's, and perhaps before. We put together the teacher's kit as an educational unit about the program as it exists today. There is no intent whatsoever to mislead.

The reason it is put together in a three-ring notebook is so that we can take pieces out and add something to it without having to redo the entire thing, as an economy measure.

The reason for the teacher's kit in the first place is to save resources. We have to be very careful with how we use our resources.

This was meant to be a guide for teachers, for students, to understand the program as it is. I feel strongly that they must understand what is before they can enter into a dialog about what will be.

Senator SIMPSON. Well, you and I will just agree to disagree. How are young people supposed to know anything when they cannot be told that there is only one way to save this system, and it is through the increase in revenues which are "payroll taxes or reduction in benefits," and that they are on the low end, unless you have something else to tell them?

What are the other things you tell them to be sure that this system is here, other than the fact that Congress has never let it go broke before and that there is a wonderful, bipartisan solution here waiting for it, which is the chuckle of the year as we watch the Government shut down because we could not get $7 more a month on Part B premiums on Medicare. Come on. What do you tell them?

Dr. CHATER. I tell them that it is important that the long-term solvency issue be addressed sooner rather than later. I tell them that we are looking forward to an Advisory Council report that we will all analyze and study, and that we will hopefully learn from their technical papers and their recommendations.

I tell them that another option besides simply raising revenue and simply cutting benefits might be a combination of both, and, if we did it sooner rather than later, the changes we could expect would be modest.

I also make it very clear that it is important to study these recommendations that will come forward within the framework of the Social Security program so that we can maintain the basic, core concepts of the program in which I believe very strongly.

Senator SIMPSON. Well, I will repair to private life, repair to my chambers and reflect after I leave my work here with Social Security. But I am numb when you tell me that you are going to tell them this, that we are going to need more revenue, *i.e.*, the revenue will not come from seniors, it is not going to come from income tax, it is going to come from a payroll tax and they are going to pay it.

That would be a wonderful sentence in here. There will be required adjustments, other than bipartisan amenities of all sorts, and they consist of increasing revenue, *i.e.*, payroll taxes, or decreasing benefits. Decreasing benefits will be very difficult to do because the senior citizens will pound the Congress to shreds. You could put that in parentheses. So you are going to get stuck. You are the stuckees. There is no one else left. It is not funny. In fact, anybody between 18 and 40 ought to be crying instead of laughing. They are going to be stuck.

Your total suggestion to them, and you have left it out—maybe you say it—is that we are going to have to have additional revenues, we are going to have a reduction of benefits, or a combination thereof. That is what you just said, and that is all you tell them.

Tell America what else we are supposed to do, if you have some suggestions. My hunch is, you do not, and that you never have, and that you never will, because there is no way to bring this program to long-term solvency without doing one or the other of those, or a combination of those. It is a travesty not to tell them.

I am not going to ask Mr. Goss that question, because it would be embarrassing to him as a professional. When I see him sitting there, I cannot imagine what goes through the mind of a professional actuary as we both know exactly what is going to happen to Social Security and exactly what to do to correct it, and sit here and just see it all kind of slop around in the chamber like a vat full of Jell-O. It is wrong. People know it is wrong.

The teaching kit is wrong because it does not tell them the basic facts of their lives, that they are stuck, totally stuck, and no one else is. It is them, nobody else. It is not the seniors. It is not going to be paid out of estate taxes. It is sure not going to come out of general revenue when the debt of the United States in 7 years, even if we "balance the budget" will be $6.4 trillion. It is not going to come from there.

I have seen references here that perhaps general revenues will be required. Well, we will cough it up, but they are going to pay that, too. They are the generation of the stuck, and nobody is telling them. Sadly enough, they do not understand it. We gave them the right to vote at 18, they do not even use it. Fifteen percent of them use it. They come up to me and say, who speaks for us? I say, why don't you speak for yourselves? We gave you the right to vote and you are just sitting there, blinking like a frog in a hailstorm. So go figure it out for yourself.

Well, enough of that. We will get into questions, perhaps, from our colleague from Pennsylvania. You are good to come. Here is a man with the guts enough to address this issue in his election, and people like this who are of the younger generation and have the guts to step up to the plate and not let the babble overcome the facts.

So, Senator Santorum, I really appreciate you and I admire you richly. You are a wonderful, fine new Member of this Senate, with a great, great future on this, yes, but on so many other issues.

STATEMENT OF HON. RICK SANTORUM, A U.S. SENATOR FROM ENNSYLVANIA

Senator SANTORUM. Thank you, Mr. Chairman. As someone may suggest that I did not have the guts, that I was maybe foolish enough to bring up this issue during the campaign. But I think it is an important issue and I admire you greatly and your tenacity in continuing to confront this issue and take on those who demagogue this issue just shamelessly and who prey on seniors and try to misinform other young people, in particular, with respect to this system.

I guess I would have a few questions that address, I guess, the point that the Senator was just making. That is, in this presentation there does not appear to me to be—and please correct me if I am wrong—an explanation of the history of this fund, what people paid in and received in previous generations, what people are paying in now, and are expected to receive vis-à-vis what they have paid in.

We obviously have some major differences between what previous workers paid in and the percentage of taxes and the benefits they received over time, given their life expectancy now, and what people are paying in now, even assuming all is nice and rosy and things will work out, that we are going to keep this system going for them.

You have all of these reassurances in here that this money is going to be here, but is there an explanation of, for lack of a better term, generational equity with respect to this system? If there is not, and you propose to be informing people on Social Security as to what their future is, do you not feel an obligation to do that?

Dr. CHATER. I believe there are comments in there about the basic framework of the program in terms of individual equity and social adequacy principles. When we talk about it, as I said, we talk about the program being available for Disability benefits as well as Survivors benefits. That is all part of the teacher's kit.

Senator SANTORUM. I think maybe I am getting to a more specific question. I am talking about the information as to—and you have probably gone over this, and I apologize for being late, but I was over in a conference on the House side—I know you used to carry around, or maybe still do, with your dad and what he paid in and what he got out.

Senator SIMPSON. My own, which is just as shocking.

Senator SANTORUM. Your own. Do you do any of that compared to what people are paying in now or will be paying in versus what they expect to get out of this system? That is, do you show any comparisons of how the system used to work, how it will work?

Dr. CHATER. Well, it is certainly a question that we address when we are out speaking about Social Security.

Senator SANTORUM. I understand that.

Dr. CHATER. Whether or not that specific example is in the teacher's kit, I do not recall, Senator.

Senator SANTORUM. Do you not think it is important, if you are going to give people an idea of how Social Security has worked in the past, that you give them a framework of reference about how it has worked in the past and give them an understanding of what is going on with life expectancy, what is going on with the increasing of taxes on each successive generation?

Dr. CHATER. Yes, I do.

Senator SANTORUM. So you think it is important to do that, but we did not do that.

Dr. CHATER. Very much so.

Senator SANTORUM. All right.

Again, I apologize for coming in late, because I do not know the questions that have been asked. But it seems to me that you have somewhat limited or skewed the choices that were made or recommended to the people here in this kit to ones that preserve this system in its current form, by and large. You seem to cast aside any notion of privatization of the system. Can you explain to me why that was done?

Dr. CHATER. Yes, I certainly can. As I said a little earlier, the purpose of the teacher's kit is to share with young people what the Social Security program is about today. The kits, which we started working on in 1994 and have been distributed recently, were never meant to be a teacher's kit or a learning exercise about long-range solvency. That was not its purpose. So that material is not in there, you are absolutely correct.

Senator SANTORUM. So you do not feel it is a part of informing people of Social Security as to whether this Social Security system is going to be there for them?

Dr. CHATER. No, I did not say that. I think, first of all, that Social Security——

Senator SANTORUM. There is a lot of reassurance that it is going to be there for them. In fact, one of the questions is, "The principal assurance that Social Security will be sufficient income to pay future benefits is," and the correct answer is, "the program is compulsory and can count on future income from taxes." So, you seem to provide some pretty strong assurances to these folks that Social Security is going to be there for them.

Dr. CHATER. I do, and I want to, and I believe in the Social Security program. I am an advocate for our beneficiaries for the Social Security program. The reassurance——

Senator SANTORUM. Which beneficiaries?

Dr. CHATER. I beg your pardon?

Senator SANTORUM. Which beneficiaries?

Dr. CHATER. All beneficiaries.

Senator SANTORUM. Beneficiaries now or beneficiaries 30 and 40 years from now?

Dr. CHATER. Both. I feel that to reassure the people about the Social Security program, one can do that based on what Congress has done in the past. There have been long-term solvency issues before this year. Congress has always acted in time to make secure the Social Security program.

I would not, for a minute, go around the country and say that it is going to fall off the face of the Earth. I do not believe that. It is a program that helps us keep people out of poverty, it is a program that helps little children of survivors, it is a program that gives benefits to those who are disabled.

The United States is proud of this one very most successful domestic program. So I speak with a great deal of assurance, not only on behalf of myself, but on behalf of the administration, that we want to keep Social Security strong for future beneficiaries.

Senator SANTORUM. Can you explain what you mean by keeping Social Security strong?

Dr. CHATER. Yes. We want to find some solutions to the long term, which I remind you, we are talking 75 years, and lots of things could change between now and then. But we want to find solutions to the long-term solvency so there will remain a Social Security program based on the principles that the program has established today.

Senator SANTORUM. Again, maybe I missed something. You said 75 years.

Dr. CHATER. Yes.

Senator SANTORUM. Seventy-five years is when the problem comes up?

Dr. CHATER. No, no. Not at all. The problem comes up before then.

Senator SANTORUM. Right.

Dr. CHATER. But the actuarial long-term balances are required to be examined for a 75-year period.

Senator SIMPSON. I think we want the record to show that the problem begins in the year 2012.

Senator SANTORUM. 2012. Right.

Senator SIMPSON. That is not very far away. Let us keep our eye on that. That is when the revenue does not cover the outgo, for the first time in history.

Senator SANTORUM. Is part of the problem here not really a demographic anomaly that maybe we have not seen in this country, certainly, since the time of government social service programs, with the baby boom generation and a huge population mass moving into the retirement years? Is that not unique?

Were not all the previous concerns in Social Security really unrelated to what is a fundamental shift in demographics in this country that we have not dealt with before and should we not take that a little differently from what we have done in the past with respect to Social Security adjustments?

Dr. CHATER. The demographic differences are a very major factor, yes.

Senator SANTORUM. But does that not make this situation a little bit more unique, that we cannot just pass it off as, well, we have fixed these problems in the past, we will just fix them in the future?

Dr. CHATER. I did not mean to suggest that as lightly as you have presented it, Senator. The fact that we have this big demographic change coming up does not take away my confidence that there will be ways to take care of the long-term solvency.

Senator SANTORUM. Maybe I am not being clear.

Senator SIMPSON. It drives you crazy, does it not?

Senator SANTORUM. We are talking about a very different problem here. We are talking about a problem that we have not confronted in past Social Security crises. We are talking about a major demographic shift here. We are talking about a lot less people paying into a system to support a lot more people in that system.

This is not just another, well, we have to keep the system alive for a few more years because things have not changed much other than the fact that people are living a little bit longer.

Now we have people, yes, living a lot longer and we have a whole major—again, I keep referring to this bubble of the baby boomers. I am one of them. I am one of these 18- to 40-year-olds. I am the only one in the Senate. I feel it is important that those of us here at the tail end of this who are going to be looking at Social Security——

I go to high schools all the time. I go to high schools and colleges, and I think we do need to do an educational effort on Social Security, because I go in there, and I understand what you are trying to accomplish.

I am sure you have seen it. I mean, there is a lot of absolute cynicism among young people in this country with respect to the Social Security system, the Medicare system, and what goes on here. They do not believe it is going to be here any more than they believe there is a man in the Moon.

I agree, we have to do something to educate them to provide them the information necessary to give them some assurances, but I think we have to be straight with them. I think we have to be straight with what the Social Security was, what the Social Security is, and what the Social Security will be and what their options are, as people who are going to participate in the public debate.

This packet is more—I have a 1-year-old—like a binky. I mean, it just sort of sits there and it is a pacifier. It does not really solve the problem; it does not feed the baby. It makes the baby feel all right for a while, but it does not go about informing the individual constructively.

I think that is what maybe Senator Simpson is concerned about, that what maybe I am concerned about, is that we are not really facing the facts here. I mean, the demographics show that, in approximately the 1950's, eight working-age Americans for every one person over 65; by the year 2030, there will be two working-age Americans for every person over 65. Now, is that mentioned in here?

Dr. CHATER. Senator, as I said before, this teacher's kit is not meant to solve the long-range solvency problem or even present its options. It was put together as an information piece to support what you said, that we need to educate the American public about what was, what is, and what needs to be. We are only at the what if stage in preparing the teacher's kit.

It really was never put together to talk about long-term solvency. I do not think this is the year. You cannot talk about long-term solvency during an election year. It politicizes every single option that we may have available to us.

Senator SANTORUM. Well, as someone who talked about long-term solvency 3 weeks before his election, you can talk about long-term solvency and you can actually survive doing so, because the American public, I think, is more willing to face these facts than people give them credit for.

All I am suggesting is, I am not asking you to go out a couple of months before the election and talk about long-term solvency, but I am saying, if you are going to put together an information packet that, as you are suggesting, is going to inform kids about what their future is with respect to this system, which they are going to be paying 15 percent of every dollar that they earn into it—close to somewhere less than 15 percent of every dollar they earn—I think they have an obligation to know what they are getting for their money, and you are not telling them here.

Dr. CHATER. The reason for the format of the teacher's kit, in the first place, the three-ring notebook idea, is so that we can insert whatever we want to in the future, so there will be time to include some of these options.

Senator SANTORUM. All right. Maybe I understand what you are saying. What this document was intended to be was a politically correct solution until you got past the election, until you can really fill the American public in on what is happening afterward; is that what you are saying?

Dr. CHATER. No. What I am saying is, this document was meant to present how the program works that we have today so that they would understand it and be better able to have a reasonable debate and discussion on the long-term solvency issue when the time comes.

Senator SANTORUM. So this plan, this presentation, was to present how the Social Security system runs today. That is the only objective of this plan.

Then can I ask a question. Why would someone 18 years of age care about how the program runs today when they are not interfacing with this program, and with respect to the benefits of the program?

Dr. CHATER. Because many 18-year-olds only know about Social Security when they get their first paycheck. They have had no other connection with the Social Security program until then. Many of them still do not have parents who receive Social Security.

When I received my card, for example, I remember, I had to go apply for a Social Security number so I could work. I remember a visit to an office. I remember them telling me that I needed to keep this for the rest of my life, to take care of it. It was, if you will, a rite of passage, something you needed in order to work. So I had a basic understanding of what it meant to have a Social Security number.

Today, we have become efficient and we enumerate little babies at birth in the hospital, so there is no rite of passage, there is no way to establish an understanding. This booklet, these classes that are incorporated into government courses at the will of the teacher, represents in many cases the first opportunity a young person has to even know what it means when they see on their payroll stub that Social Security has been taken out.

Senator SANTORUM. Thank you, Mr. Chairman.

Senator SIMPSON. You have been a remarkable contributor to this debate, and I admire you greatly. It is exceedingly frustrating, because you have hit upon the essence of it. We have never had this happen before. Every correction we have made in the past could be made because of demographics.

Now, whatever we do will require heavy, heavy lifting because every 7½ seconds somebody is turning 50, and in 15 years they will be 65. There is no way that this program can be sustained with revenue coming in 1 day, 1 month, and going out the next. The people do not even know that the money collected this month goes out the next month. It does not go to a little niche which is described as, John Doe, his trust. You know that, and I know that.

It was promised to this baby boom generation benefits and full COLAs, and that is what they are waiting for. If you do not think that is going to be a struggle in this country because the only way to do that is to reduce benefits or increase revenue, and there is no other way, or a combination thereof. All of the things about children and disabled, we all know that.

In this, if you read this teaching guide, all of these marvelous things that have been added to Social Security look like they fell from a crystal blue sky and nobody tells them how much those cost and that they are paying for those. They do not even understand that.

It would be well to say, when you say all of these marvelous things, to promote the general welfare, save a place in this book for one more leaf and just say, when they added this it took away from your benefits; when they added this it took away from your benefits; when they added a COLA to it, which was added by Wilbur Mills and Richard Nixon so that each of them could be elected or re-elected President.

When they stuck a COLA on this thing, tell them the COLA has no affluence testing at all. Tell them that 40 percent of the people in this system are "well off." Tell them that in the 1980's you got all of your money back in the first 2½ years of the game, and in the coming year it is going to be 10 years, 12, or 15.

Dr. CHATER. Senator Simpson, may I just say something, please?

Senator SIMPSON. Please, yes.

Dr. CHATER. I just do not see that adding, for example, Disability and Survivors benefits has reduced their benefit. What it has actually done is provide them with additional benefits.

Senator SIMPSON. But somebody had to pay for it. I am saying, it looks like this just kind of fell from a gracious, compassionate Nation. The young people and old people are paying for every benefit we added here, which were above and beyond what was originally in the schedule to be paid in 1937. You know that and I know that.

Dr. CHATER. I understand what you are saying.

Senator SIMPSON. All right. That is what I am saying.

Dr. CHATER. But I just want to make clear that it is not reducing a benefit when we add two very, very important aspects to the program.

Senator SIMPSON. I should have said, it just increases their tax load. They need to know that, either way you cut it. But, since you have a place for a loose-leaf, I hope that in your PEEBS that we send to people telling them what they have put in and what they are going to get out—and that was Pat Moynihan that was responsible for that, bless him, and everybody will know, by the year 1999, what they have put in—add this paragraph, and then we will end this exercise.

Put in there in this thing that they receive, "Your projected benefits are based on current law. However, the trustees of the Social Security program have told us that projected revenues for the program will not be sufficient to pay for all promised benefits beginning in 2012.

It is possible that Congress will enact changes in the Social Security program that may affect the amount of your benefit for the age at which you can initially claim retirement benefits. You are encouraged to contact 'blank' for additional information on this important topic." That would be a good thing to put in there.

Dr. CHATER. I would be very happy to take that paragraph with me today.

Senator SIMPSON. Well, it will be like the movie Clueless, which was a rather vacuous movie, and that is what young people are now, clueless. They will be ever more clueless when they read that teaching kit or get instructed by it, because they will be told that all is well; the birds are singing and the babbling brooks are babbling, and all is well. Too bad.

Thank you very much for your courtesies and your attention. I appreciate your presence. Thank you, Mr. Goss.

Dr. CHATER. Thank you.

Senator SIMPSON. Now we have the final panel. The Honorable Stephen Kellison, a member of the Board of Trustees of the program, and Hon. Marilyn Moon, Ph.D., a member of the Board of Trustees. We welcome you and look forward to your remarks. Ready to go again.

We admire those who serve on this Social Security and Medicare Board of Trustees, and we have to believe what you tell us. So, tell us again, or with additions, what we should know, please. Shall we proceed in the order there, of Mr. Kellison and then Dr. Moon.

Dr. MOON. We had decided that I would go first, if that is all right, Mr. Chairman.

Senator SIMPSON. That is perfectly appropriate. Please do so.

STATEMENT OF HON. MARILYN MOON, PH.D., MEMBER OF THE BOARD OF TRUSTEES OF THE FEDERAL OLD-AGE AND SURVIVORS INSURANCE AND DISABILITY INSURANCE TRUST FUNDS, WASHINGTON, DC

Dr. MOON. Thank you. It is our privilege to be here this morning to testify regarding the financial status of the trust funds, as shown in the 1996 Annual Report of the Board of Trustees.

My colleague, Steve Kellison and I, as you know, are public trustees. That means that we are part-time officials, appointed by the President and confirmed by the Senate, to represent the public interest.

In our normal activities, Mr. Kellison is an actuary and I am an economist, so we bring slightly different viewpoints to this process. But I think it is fair to say that we have both been, in this first learning year of ours, very appreciative of the care and professionalism that does go into the work on this report.

We believe our primary activity is to assure that the reports fully and fairly present current and projected financial conditions of the trust funds. As you know, that is a very difficult task; it is very difficult to project 75 years into the future about much of anything, and certainly all of the assumptions that go into the trust fund reports complicate these projections.

We believe also that the trustees' reports are most useful as a guide to a plausible range of future results. They provide an early warning that allows us to be able to make reasonable changes to the system.

We are very pleased to be here this morning to talk about some of the educational roles that the trustees' report may play.

While it is often the case that we look at the combined Old-Age, Survivors, and Disability Insurance report, it is also appropriate to separate disability and OASI.

Under Old-Age and Survivors Insurance, as you have mentioned, expenditures will exceed annual taxable income until 2013. Another, and important, piece of information is that through 2019 the trust fund will continue to expand. OASI funds show a deficit of 1.85 percent of payroll, about 15 percent of the projected long-run costs of this program.

DI is in trouble sooner and benefits are more difficult to project in that program. Benefits have shown quite a bit of fluctuation over the years. A deficit in the long run of 0.34 percent of payroll, also about 15 percent of the projected long-range costs of the program, is expected in DI. Its trust fund income will exceed benefit payments through 2002.

We know that even if these estimates are wrong by some degree that there will be a need for a change in the OASDI program as the baby boom ages, as has already been discussed here at some length this morning.

As you requested, we looked at the impact of a delay in making changes. Any delay will certainly come with a cost. Today, we would have to raise taxes about 18 percent or reduce benefits by 15 percent to eliminate the 75-year deficit that exists. In terms of taxes, that is equivalent to raising the tax rate from 5.35 percent to 6.3 percent, for example.

If we do nothing until 2010, the tax rate would have to go up by 22 percent, or benefits reduced by 18 percent. If the delay were extended until 2025, taxes would have to be 33 percent higher, or benefits reduced by 25 percent. These are very serious numbers.

In addition to the joint statement that we have, I wanted to add a couple of comments and then Mr. Kellison is going to talk about additional issues.

We have tried to stress here the important problems facing the Social Security program in the future, but there are two additional issues that ought to be on the table.

No. 1, is that the trustees' report, as I am sure you are aware, contains a broad range of numbers, many of which are useful in different contexts. The 2012 number that you have been talking about is certainly important in one context.

But, while this is a useful statistic, it is essentially a way of viewing the Social Security program in the same way that we treat other Federal budget items. I do think it is important to remember that Social Security is different than other programs. It is part of the reason that we have a 75-year projection, which is a unique activity for Federal Government programs.

It is fully appropriate for OASI, though, to use the interest that it earns in its trust fund to help finance the program. This is analogous to a family that relies upon the interest it earns on its savings accounts to finance its budget. Viewed from this context, another critical statistic is the date when the combined OASDI trust fund reaches its maximum, in this case 2018.

This still indicates a serious shortfall in the funds for the long-term future of OASDI, but this is as relevant to the issue of funding the program into the future as is 2012.

Indeed, the debate about whether to invest the trust funds' assets in equities rather than Treasury bills presumes that the income from interest is available to be used to finance the Social Security program, and that might, indeed, extend the build-up of the trust funds to a point beyond 2018, for example.

The second point I would also add, is that the summary of the trustees' report is one of the very few places where Social Security and Medicare are examined together, implicitly recognizing the importance of thinking of these two programs in tandem.

Both are financed largely by FICA taxes and taxation of some Social Security benefits. For many Americans, treating these two programs separately is an arbitrary distinction, since both represent key parts of their financial security.

Senator SIMPSON. Take a couple of more minutes so you may finish there.

Dr. MOON. Thank you. I will not take long.

For example, Medicare Part B premiums generally come out of Social Security payments, so an increase in that premium or reduction in monthly Social Security benefits would have exactly the same impact on a beneficiary family's budget. Since they are importantly interrelated, solutions to one should not be undertaken in the absence of careful assessment of the impacts on the other.

Medicare faces a greater short-term crisis because of the high costs of health care that have led the growth rate of that program to exceed the rate of growth of Social Security benefits for many years. The earlier date of trust fund exhaustion of Part A makes the earliest possible action on it essential, as we emphasized in our statement.

But the long-run challenge for Medicare is the same as that facing the Social Security Old-Age and Survivors Insurance program, and that is the aging of the baby boom generation.

It is essential to coordinate these two entitlement programs in seeking solutions to the long-run financing issues so that they make sense as a whole and so that we resist the temptation of essentially going after one and leaving the other more at risk.

Thank you.

Senator SIMPSON. Thank you very much, Dr. Moon.

[The prepared statement of Dr. Moon appears in the appendix.]

Senator SIMPSON. Now, Mr. Kellison.

STATEMENT OF HON. STEPHEN G. KELLISON, MEMBER OF THE BOARD OF TRUSTEES OF THE FEDERAL OLD-AGE AND SURVIVORS INSURANCE AND DISABILITY INSURANCE TRUST FUNDS, HOUSTON, TX

Mr. KELLISON. Thank you, Senator Simpson and members of the committee. It is a pleasure to be here today to speak on behalf of the public trustees, Marilyn Moon and myself. As Dr. Moon has mentioned, this was our first year and first cycle to go through. It has been a very impressive learning experience, to go through the annual cycle of developing the trustees' reports.

One impression I would share with you that I feel very strongly about is, the quality of work that goes on within the Social Security Administration, and also within the Health Care Financing Administration in connection with the Medicare reports, is of very high quality.

We feel a responsibility as public trustees to try to bring forward the highest quality and most objective information about the financial condition of these plans as can be brought forward, and we feel that that standard has been met.

So, I would like to say that I think the numbers and the estimates that we see are as well done as they can be done, and are summarized in the summary report that has been mentioned here before.

The challenges facing the Social Security system, as we have heard earlier today, are largely demographic in nature and they really result from the existence of the baby boom generation followed by a rather low birth rate which has gone on in the country now for some 25 years.

These demographic changes are pretty well locked in at this point. We do have the population and the various age groups there, the birth rate has remained relatively stable now for a number of years, mortality among the aged continues to improve, life expectancy continues to lengthen. These demographic effects which are creating the situation that we are dealing with now are pretty well locked in.

In some of my conversations with people about Social Security some people have said, well, once the baby boom generation sort of works its way through the system, will we not somehow return to some position of normalcy, I think, thinking in terms of where we are today.

One of the conclusions from the report is that that really does not work that way. Once the baby boom generation works its way through the system the costs do stabilize, that is correct, but they stabilize at a much higher level than exists today, so that ultimately once you reach a period of stability after the baby boom generation, the current payroll tax will pay about 75 percent of the ultimate cost of the system.

In the interest of educating the public about Social Security, I would like to offer a couple of comments about some of the proposals that are currently being discussed for ways to deal with the Social Security system.

As alluded to in our written statement, we see that the issue of privatization has come up in connection with the Social Security system. Our statement indicates that in the future this system can be dealt with either in the existing structure or it can be dealt with with some more dramatic changes, such as privatization. We think that one of the early issues that needs to be dealt with by the Congress and the American public is to think through which path we really want to go down.

Let us talk a little bit about the difference that might arise here. The system, as we have known it throughout most of its history, has been largely a pay-as-you-go system. It has not always been articulated as such, but, in fact, that is basically the way that it has worked.

As a result of the 1983 amendments, together with the demographic profile of the population that we have today, we do have this phenomenon that has been discussed earlier today of the large trust fund build-up followed by the draw-down and the ultimate extinguishment of the fund by the year 2029, with the reversal coming in the period from 2012 to 2019.

This has led many observers to suggest some sort of advanced funding of the system as opposed to letting the current law run the way it is, which would move away from the pay-as-you-go philosophy. This can be done either through the Social Security trust fund itself and/or it can be done through the creation of some type of private accounts, which gets into the privatization aspects.

The rationale of the people who make these proposals, largely, is in one or both of two areas: No. 1, public confidence in the system that money is being put aside for that person's retirement, and the other argument tends to revolve around stimulating savings in the economy and increasing productivity.

One challenge that we have to think about if we do move from a pay-as-you-go system to one that has some significant degree of partial or higher levels of advance funding is that there is an inevitable transition cost in making that type of transition.

In essence, one or more generations during this transition period will be in a position of having to provide benefits to a prior generation, as well as providing some of their own benefits.

So, any of the proposals that deal in this area will have to somehow think through the transition aspect and how these costs are going to be shared across what individuals and generations. That is a difficult problem and one that will have to be dealt with.

Another area that I would like to make a couple of comments on would be in the area of investment policy. We do hear proposals today which would rather significantly change the investment position of the Social Security funds, perhaps moving some of it into equities within the trust fund itself or perhaps moving toward private accounts that would be self-directed in some fashion.

I think we need to think through in this discussion some of the risk/return trade-offs. I think modern finance theory, as well as everyday practical experience, indicates that there is a relationship between risk and return, and that we do not pick up additional returns without taking on additional risk.

Certainly it is true that, over the long run, equities have outperformed debt in terms of real returns, but I think we need to caution ourselves that the stock market has been very good over the last several years, better than its historical averages, but we also need to remember that there is a lot of volatility that goes along with that.

On October 19, 1987, the stock market dropped 22 percent in 1 day. As spectacular as that may have been, perhaps more sobering was a period like 1966 to 1982, when, over a 16-year period, equities went up and down a lot, but, at the end of the 16-year period, were virtually at the same level as at the end of that period. We have seen a lot of gyrations earlier in the month of July, which again reminds us that this can be a very volatile way to invest.

If significant amounts of Social Security assets are moved into this arena, I think we have to think through how the public and how the political apparatus will react if we get into some of these kinds of dislocations.

Another question that I have not heard enough discussion on to my satisfaction is what the effects might be in terms of investments of this kind on the financial markets. There seems to be an underlying assumption in a lot of people's minds that the same kinds of returns, the same kinds of experience, would result. That may or may not be true. To me, that is not completely clear.

If a substantial amount of money that was previously being held in the Social Security trust funds invested in Federal debt is now in the equity markets, what does this really mean for both the equity and the fixed income markets? It is not clear.

The debt, for example, of the Treasury that Social Security might have held and was not holding because it is now invested in equities still has to be sold to somebody. Somebody still has to buy that debt. The debt is still there. What will be the effect of that on interest rates if Social Security is no longer there?

So I think there is a second level here of issues that come up that we need to examine more carefully before moving in that general direction.

I find the development of inflation index Treasury securities—the recent announcement of the Treasury Department—is a very interesting new financial instrument to consider as to how that might fit in to ultimate solutions of Social Security.

The final comment I would like to make concerns the area of retirement age and life expectancy. As an actuary, I feel some need to deal with the issue of life expectancy. It has, of course, substantially increased in the 60 years of Social Security's existence. All of our projections would indicate further improvements in life expectancy so that today, in many cases, we have people who will retire at age 62 under Social Security living well into their eighties, in essence having retirement over 25 or more years, which is a much longer period of time than the kind of funding that we have seen in past generations.

It seems that some need to look at age for eligibility in Social Security has been already enacted into law, with a gradual rise to age 67, and there are many proposals out which would increase that further. We think that that needs to be done, to take a look at that in terms of what level of period of time in retirement we can support people in a social program of this type.

The final closing remark I would just like to make on that is, there does seem to be some disconnection between people and what they want to do. Most people want to retire earlier. Their employers, in many cases, are all too happy to accommodate that. As a matter of social policy, we may need to have people retiring later. Somehow, we need to begin to work on what I see as a disconnection there.

Thank you very much. I would be happy to answer any questions.

Senator SIMPSON. Well, thank you. Indeed, that is a real disconnect because the baby boomers think they are going to retire earlier with the same or similar comfort, and that really has to be met with a great chuckle.

But I hope you realize—and I am timing, and then Senator Santorum will have 10 minutes—that in my work here I do not press for my solution or Senator Kerrey's solution, which I have joined in a bipartisan way with him. We have set out our plan and we talk about CPI reduction, we talk about addressing COLA, we talk about retirement and the accrual rate, and we talk about things that are our suggestions.

Congressman Jake Pickle used to deal with this, Senator Santorum has his views and solutions, others come in and say, do it like Chile. That is not what I am up to. I am here to tell the American people—young American people—what is going to happen to them. You know that something bad is going to happen to them, either in the way of reduced benefits or increased taxes.

If everything goes on without doing anything, beneficiaries will receive 76 percent of the amount of their benefit out there in 2029.

It will not "go broke," but they will only get 76 percent of that. They do not know that, and they will never know it, reading this.

Delay will cost. You both have said that, and there is no question about that. Who will pay the costs? Young working people will pay the cost.

Medicare, we do not really talk about. We saw that slow down the course of government because of Part B premiums, $7 a month. Everybody went crazy. Medicaid, we separated from the welfare bill. So, keep telling me about this bipartisan effort of support.

Let me tell you, we have to take a broader view. Congress and the President are each deathly afraid of even talking about how they are going to solve the problem. This fear comes from the realization that the public, many of them, see no problem.

That is the problem, when you have people ranging through the country with this packet saying there is no problem and everything is well, and saying we are going to correct that when Medicare is going to go broke in the year 2001 and we will get it done.

So if the people in America—and especially young people, know something is wrong, but they know it will be there and older people in their forties and fifties—see it as no problem and we simply here are only proposing changes because we are venal, old poops who want to give the money to foreign aid, congressional pensions, or tax breaks for the rich, they ain't ever going to figure this out. You could do all of that and it would be nothing.

The issue is, how do we repair the situation when a generation of students are going to read a kit like this saying all is well? When I was a freshman at the University of Wyoming there were 16 people paying into this system and one person taking out, today there are 3.1 people paying into the system and one taking out, and in the year 2030, there will be two people paying into the system and one taking out; is that not correct?

Mr. KELLISON. Basically correct, yes.

Senator SIMPSON. Basically correct. You know that, I know that, Shirley Chater knows that. What do you think is going to happen when two people are working like dogs in the year 2030 and having to cough up enough to give a person $18,000 a year, or $12,000 a year, or whatever that is, because what they are paying in that month is going to come out the next month in a beneficiary payment?

Today, one out of eight is over 65. In that coming year I describe, one out of five will be over 65; is that right? That is right. You know that, I know that, and Dr. Shirley Chater knows that.

This is a Ponzi scheme, and the people do not know that. I do not disagree at all with Dr. Moon, that Social Security will be credited with the interest that it earns. Others have talked about that. Well, it will not go broke in 2012, I have heard Dr. Chater speak of that, it is going to be sustained until the year 2018 because of the interest that it earns on T-bills. We will lay claim to that in the year 2012 and on beyond maybe until 2018 or 2019. I hear that, and I agree with that.

But the essential point that everybody seems to miss is that one has to look at the net effect of the taxes upon the taxpayers, and those are going to be the young people, and on the economy at that time. The interest on that will come from general revenue. Do you agree with that?

Dr. MOON. Just as it does now, Senator Simpson.

Senator SIMPSON. That is correct. That is exactly correct, just as it does now. So even though it is a real asset to the Social Security system, somebody has to cough it up. Somebody has to cough up the money through taxpayer receipts to pay interest, just like they do today and just like they will then.

So, sure, it will keep it going, but somebody is going to pay for it. The only somebodies out there are taxpayers.

Dr. MOON. Could I respond?

Senator SIMPSON. Yes.

Dr. MOON. I believe that it is very important to make very clear to people the seriousness of the problem that is facing us. I am concerned, however, when we hear people talk about this program as a Ponzi scheme, that this implies that there is an attempt by people who sincerely believe, as I do, in the Social Security program, to have this program not be there for the future. A Ponzi scheme is intended to end in disaster in the end and this is not what supporters of the system wish to have happen.

I am a believer in Social Security. I am a believer in change in the program so that it will continue. I think we have to find the right balance between making people aware of the seriousness of this problem, but also aware that it is not so serious that we cannot make changes in it and come to solutions.

The magnitude of change is going to mean pain for people, but it is not going to mean disaster. We are going to have a population in which at least 20 percent of all people will be over age 65, whatever we do to Social Security, and there is going to be a problem of what we do with this population.

What we need to do is find the right balance between making people aware that we really do need to take this very seriously, but also recognizing that we should not throw up our hands and say, I do not know what to do about the problem.

Senator SIMPSON. Well, we do know what to do. We need to do it now, and we need to have solutions suggested to us by the people that we have entrusted with the program, and that is the Commissioner, who should be telling us, honestly, what to do, and so should the trustees.

If you do not know about what to do, how do we know what to do, as we deal with 800 different items every day in this place? So we are expecting you to say what you have just said. You have told the American public that we are going to have to raise their payroll taxes 15 percent if we do it at one point, 22 percent at another.

How do you think people feel about that when they are skirting on the edge already? Business people cannot pay. When they give us these figures, they even forget the employer's contribution. This thing here, when you get your money back and all of the stuff there, does not even include the employer's contribution.

This thing is just a chuckhole for the unwary. I hated to use the word Ponzi game, and you are right to critique that. But, in the year 2029 not to tell people in this publication that if we do not do something that there will not be anything there—and that is what you are telling us, that is you people telling us that—and to not put that in here is the biggest disconnect of the ages. There cannot be a bigger disconnect, just to tell people that all is well.

So you have described it well: It will be painful. I cannot imagine the pain. I cannot imagine the political pain, and thank God there are people like Senator Santorum who will beard the lion in the den and take the dragon on with the lance.

But this is bizarre, that everybody knows, every thoughtful American knows through your good work and through the Bipartisan Commission on Entitlements and Tax Reform and through every source exactly what is going to happen to this system, that we cannot touch it.

We try, but when you cannot even affluence test Medicare Part B premiums, where the people in the Senate dining room are paying 75 percent of the taxes for the richest people in America, got it? Got it. Is that not correct? Am I wrong, on Part B? Am I not correct?

Dr. MOON. The Part B premium is the same for people of all income levels, yes.

Senator SIMPSON. Yes. They are paying 25 percent of the premium. It was 33⅓ or 31, and now we let it come back to 25 and stopped the government on that.

Dr. MOON. That is right.

Mr. KELLISON. That is correct.

Senator SIMPSON. So you have a situation in America today where we cannot affluence test, cannot even get that done to raise somebody to maybe have to pay $150 a month for their Medicare Part B premiums instead of $44.99 or $46.10, regardless of their net worth or their income. If people cannot even understand those basics and what we are going to have to do with CPI, would you agree that—forget the figures—that we should address the issue of an over-estimated CPI at some point? Do not throw anything.

Dr. MOON. Do you want to take that?

Mr. KELLISON. I think that is an issue that definitely should be looked at. I am not an expert in that area personally, but I have been watching the discussion and analysis of that that goes on, and I do think, if there is to be CPI indexing and Social Security or cost-of-living indexing, that it should be based on an index that is unbiased. If there are proven biases in the CPI formula, then they should be taken out.

Senator SIMPSON. Well, I thank you very much.

Senator Santorum.

Senator SANTORUM. Thank you, Mr. Chairman.

Just to follow up on what Senator Simpson was saying, do you think it is a proper role that you should look at CPI and make a recommendation? I mean, do you see that as part of your function, to make recommendations on things like this?

Dr. MOON. We have talked a little bit about this, and our feeling is that, technically, our task is to make sure that these trust fund reports are appropriate, that they are honest, and that they tell you what the financial status is.

Obviously, solutions to the problem that get discussed are going to have impacts on the trust funds and some of them will have direct impacts on the trust funds, such as how to handle investments. Those we think we should look at particularly closely in our role as trustees.

We also believe that one of the few things that we can do is to be as unbiased as possible and look at the pros and cons of various different approaches. Over time, we think it may be appropriate for us to talk about any misperceptions about the impacts of certain kinds of changes.

We do not think it is our role to say, yes, you should do exactly this package, but to, rather, try to keep the dialog open and provide as much careful information as is possible in an unbiased way.

Senator SANTORUM. You said it is important to relate the seriousness of the problem to the American public. Have you read the kit that we were talking about this morning?

Dr. MOON. No, I am sorry. I have not read it.

Mr. KELLISON. I have not read it either.

Senator SIMPSON. This is that document here.

Senator SANTORUM. Well, then I will not ask that question.

Mr. Kellison, you were talking about some of the actuarial information, and Senator Simpson referred to it also, and the demographics. Have you folks done anything with respect to the generational—and I am not comfortable with the words Ponzi scheme, because you are right, at the end we assume that we are trying to blow the thing up, and that is not anybody's intention. I understand that. But I think Senator Simpson is right in using that term, that we are playing games here with taxpayers, and particularly with young people.

Have you folks done any studies or an analysis of what generations of Americans have paid in and gotten out of Social Security and what it looked like, what it looks like now, and what it is going to look like in the future for someone like me, who is going to retire in the year 2025?

Mr. KELLISON. I would turn over to Mr. Goss here to probably give you a more complete answer to that, but there have been various analysis that, I think, largely characterized as a money's worth analysis, I guess, is the phrase that these often go by, a fairly definitive study around the time of the 1983 amendments by Bob Myers, former Chief Actuary of Social Security, and Bruce Schobel.

These types of analyses have been updated periodically since 1983. There are other people who have attempted to do analyses of that sort. So, that kind of information is out there. It is not something that we personally have taken on as an assignment.

Dr. MOON. I would add that, in my own career as a researcher, I have looked at some of these issues, not as directly related to that. I am always cognizant of how difficult it is to do intergenerational comparisons.

It is very difficult for me to know how my life compares to that of my father or my grandparents, for example, and how well off I am compared to them. I have many opportunities that they never had, and could not have had regardless of how wealthy they were.

I have had many life experiences that are quite different than their life experiences. My generation, the baby boom generation, certainly had some connection with the Vietnam War, but not like the World War II generation, for example.

I think that when we think about what has happened to Social Security over time, for example, we shared as a society the generosity of the rapid growth of the 1950's and 1960's and incomes of those working people coming back from World War II with a retiree generation that would have been much less well off. That was, I think, a reasonable thing to do. It meant that if you did a share money's worth kind of calculation you would have said it might have made no sense whatsoever in terms of what people contributed.

That also means that we have to look very seriously at the future and think about what the right balance should be, but I think there are a lot of intangibles in this kind of a discussion which makes it very difficult to do, even if we know for sure what the number of workers to retirees are or what the ratio of what you paid in to what you get out is. I think there are a lot of other things that go on in this as well.

Senator SANTORUM. But do you not think it is important that we make that information available to people, that, in fact, it is one of the roles of the Social Security Administration to make that information available so people know the kind of system that has existed, what the system looks like now, and what the system will look like in the future?

Dr. MOON. Well, there is a lot of information that is available about that. In fact, in the longer version of the——

Senator SANTORUM. Does that not relate to the comment you made, which is, it is important to relate the seriousness of the problem? Do you not have to understand the history of how we got to where we are before we understand the seriousness of the problem?

Dr. MOON. I am a believer in that. There is a very interesting chart in the long version of the OASDI report that shows, for example, in dramatic fashion the change in the ratio of workers to retirees over time.

Senator SANTORUM. So it is important to do, in a sense, what Al Simpson does with himself and his dad, in showing someone my age what we are paying in versus what we expect to get out?

Dr. MOON. I think that is a very important part of that discussion, but it is only part of that discussion.

Senator SANTORUM. You think it is only part of that discussion because there are other factors that are outside of the Social Security arena that interact, is that it?

Dr. MOON. Yes. For example, I think that, as a society, if we are much wealthier over time than we were in the past, that it is a reasonable thing to share that wealth with our older relatives. In fact, if we did not do it through the Social Security, to some extent, you would see families doing it on their own as well.

Senator SANTORUM. Yes. The problem with that is, we share in wealth, but we put that in law forever.

Dr. MOON. It is a lot easier to share increasing wealth than it is to share the effects of less prosperous times, that is true.

Senator SANTORUM. Yes. I guess the point I am trying to make is, when you share that wealth based on a period of time that you are having prosperity, what we have done here is locked that in for every generation; whether there is wealth or not, they are sharing it with previous generations. So, there are some differences here, is that not correct? It is not like any of these changes were temporary, based on an economic surge. They were put in law forever.

Dr. MOON. But most of the changes were made in the context of trying to look at long-term projections for the future of the program. The 1983 amendments are a very good example to look at in terms of sharing some of the pain that people felt was necessary at that point in time.

Senator SANTORUM. I guess that is a good point. You talk about a number of people working, retiring, what the tax burden will be. In fact, I see that your trustees' report in 1995 indicated, "By the year 2040 a combined employer/employee payroll tax of 40 percent could be required to pay benefits." That was in the 1995 report. I understand that. You look then and you say, gee, that is a lot of money.

Again, I guess I am just trying to see whether we are getting the information out to the American public. Does the American public understand that when they are paying up these surpluses that— as you said, this was a pay-as-you-go system pretty much until the 1983 Act, and you are paying up these large surpluses.

Well, we are paying for, in a sense, our own retirement, and then we are going to end up paying again later as we fix this system even more for our own retirement. Is that not correct?

Mr. KELLISON. Well, I think I said something very similar to that in my prepared remarks, that, basically, yes, if you do evolve from a pay-as-you-go system that does involve some level of prefunding there will be a generation or more in there that is being asked to pay for their prior generation, as well as prefunding some of their own. So, that is correct.

Senator SANTORUM. So, basically, since 1983 what we have seen is those people working past the year 1983 and those of us who maybe entered the workforce around 1983 are, in a sense, not only funding this generation of retirees, prefunding our own, and then even paying more as a pay-as-you-go for later.

Mr. KELLISON. I think the trust fund build-up and draw-down that happens as a result of the 1983 amendments is a by-product of the package of proposals that were put together at that time. I do not think there was an intention at the time the 1983 proposals were developed to create that. I think that is a by-product largely driven by the demographic profile and the population, but it was not the direct intention to have that happen.

Senator SANTORUM. What was the average life expectancy of someone 65 in 1950, do you have any idea?

Dr. MOON. I should know this. Since 1965, the average life expectancy has gone up about 4 or 5 years. Mr. Goss might know more of some of the answers to that. Is he still here? He is not still here.

Senator SANTORUM. All right. I just wanted to get a sense of how much longer people are living on Social Security than they were many years ago when this largesse that you suggested began to happen.

I am done. Thank you, Mr. Chairman.

Senator SIMPSON. Well, let us take 5 minutes more each and take it up to the noon hour here. You have been very helpful. I have talked with the public trustees who were your predecessors, and they were very helpful to us, too. I have great regard for Robert Rubin, Robert Reisch, and Donna Shalala. They are trustees. But they have a certain administrative or administration pitch to give, and that is understandable in any administration. But I think I rely more on you.

One of the disturbing things to me was, in the President's first budget, a very remarkable section on, what was it called, generational accounting. Maybe you saw that, Rick. It was a stunner. It laid out book, page, and hymn number—it was superb—about what was going to happen to the younger generation.

I thought, well, this President is off on the right track; he is dealing with one of the tough issues of the country. The next budget, it just disappeared, completely gone, just a blank page. No title, no nothing, gone. That was because his political operatives got a hold of him and said, you had better lay off of this one. We understand that, we do, here.

I do have difficulty with the chairman, Commissioner Chater. She does not like to talk about the money's worth issue. She says that is, as you describe it, a small area.

But I do not think it is a small area when you can hold up a card and show what you have paid in and what you are going to get out, because every time I have a town meeting when somebody is howling to the high heavens about being in it from the beginning and wanting everything they got out, and then I have them fill that out and get it from Baltimore in 6 weeks, I never hear from them again. They are embarrassed and they are also in shock.

Anyone my age has put relative peanuts into the system, and I know what I have put in. It comes to about maybe $55,000 in a lifetime. My first payment, if I retired at 65, will be $1,140 a month. If I wait until 70, it will be $1,550 a month. Now, come on.

The first 8 years, I never put in over $30 a year. Then the next 15–18 years, I never put in more than $174 a year, and neither did any other 64-year-old cat in this country. None of them. There they are, howling to the high heavens.

Then they got really nailed. They got stuck for $300 a year, $800 a year, $900 a year, howling to the high heavens. If they retired in the 1980's, they got it all back, plus interest, plus the employer's part, in about 2½ to 3 years. That is what is out there.

So we come to this issue of equity. What creative ways can we use to send your message which is in this little salmon-colored book, which is the summary? The other one is superb. It is good work. You can hold this up all day long and it will not make a dent.

So how do we get that message out to the American public, should we require that your report be added to the Social Security Administration kit? It is loose-leaf; I am sure it will fit.

It is a loose-leaf kit and there is enough room to put that in there. I think we ought to do that. I am going to talk with Dr. Chater.

Should we send it out with the IRS forms? That might be a dazzling way to promote it. We could get an agent for you to get on Oprah and describe it, or put it on MTV, or a movie. The U.S.S. Clueless. They will think it is a ship movie, and go to it and pay

$6.50 or $7 to see the S.S. Clueless, which is the Social Security clueless to those who are 18, 20, and 25, who understand nothing.

How are you going to get this out to the American public?

Dr. MOON. We have talked about trying to find additional ways. We obviously have very limited resources. We are just part-timers, and there are not a lot of resources available to us. I think that perhaps in your life as a retired Senator, Mr. Simpson, you could proselytize about these issues.

Senator SIMPSON. I will. I will be doing a little of that.

Dr. MOON. But it would be nice to find some ways to actually make this information more accessible to people. It is now on the Internet under the Social Security Administration's site on the Worldwide Web, so people will have access to it. I am astonished at how quickly that has spread as a way of people getting information out just in the last 2 years.

So I am hopeful that we can find further ways like that. We want to work on this issue to make these reports available to people on a broader basis.

Senator SIMPSON. That is equally exciting to me about what they say about the play or the hits on the Internet with regard to Social Security and the electronic debate there. I think that augers well.

Well, my friend, thank you. Rick, do you have anything more to add?

Senator SANTORUM. Just, have you done anything in particular, other than the report, that is focused at young people? Have you done any outreach other than just the report; you do not have any other kinds of outreach efforts other than the report itself?

Dr. MOON. Only when we have been asked to speak at various forums, which I think both of us have been willing to do periodically. Again, we thought of this first year as a learning year. We would be interested in doing more over time as well.

Senator SANTORUM. You think it is important to inform all people—not just young people, but I guess particularly young people—as to what is going on with the Social Security and what you talk about in your report, and you think it is as important as telling them how Social Security works?

Mr. KELLISON. I certainly concur with what Dr. Moon has said. I think we do feel a responsibility as public trustees to try to help in the effort to educate the public about the system. I certainly would support that.

I think there is a limited amount that two part-time individuals can do when we have virtually no resources to do it, but certainly whatever efforts could be under way to get more widespread dissemination of the kind of information that is in the summary report, we would certainly be supportive of doing that and would look forward to working on ways to try to achieve greater visibility in the future.

Senator SANTORUM. Thank you.

Senator SIMPSON. Just a final question. There is a sense of urgency, and that is a term used in here. That is a phrase, and I quoted some of those earlier, the words quickly, taken soon, and urgency, and early warning.

What kind of a timeframe do you have in mind? Forget whether it is politically possible, just as trustees who care and whose mission is to protect the system, what timeframe, when you say soon, taken soon? Whatever it is, will there be time to sufficiently advise the public as to what is going on and for participation in the debate?

Dr. MOON. That is a very difficult question. I believe that Medicare needs to be taken on first, because of the urgency of the Part A trust fund issue. I think that it would be very nice to continue the dialog for a while, however, until the public recognizes that there is a problem and a need for a solution.

I think it would be a big mistake, even if the Congress got together in a bipartisan way and suddenly passed something, to do it without engaging in a sufficient dialog to make sure that Americans understand the need for this change, as well as the implications of various proposals.

Mr. KELLISON. I would certainly agree with that. I think that I would like to see it start as soon as possible. I think certainly the Medicare situation will obviously demand center stage in the immediate future, but I think there is a period of time for the kind of changes that are being contemplated for Social Security and proposed by various individuals for a debate to ensue and for the public to understand the issues that are involved.

I think issues like privatization and some of the other things that are being seriously considered are not concepts that can be dealt with in a short time intelligently, they are ones that need to have some careful study over a period of time. So to get that process started, I would certainly support it.

The other thing, too, is that, as we have pointed out in our report, the earlier that action is taken the less dramatic it really has to be. There is also a question of allowing people adequate time to plan for their life events.

If we are going to make changes that are going to affect people, the longer the lead time and notice the better. So, even though there is not an immediate crisis of funding, if you like, I think, given all of these factors, the process should start certainly in the very near future.

Senator SANTORUM. You make that comment before, that we need to give long lead time. You cited in, I think, your testimony that we made the changes in 1983 to raising the retirement age and that does not take effect until the next century.

What I have found is, most of the people who are affected by that retirement age change have absolutely no idea that it is coming. So, I would suggest to you that maybe a different tack, if you move it up sooner, is that people will pay a lot more attention to it. If you push it back too far, people do not pay attention at all when it happens and they do not think it is them.

So I think there is a fine line. You do not want to make it too quick so people cannot adjust, but I think if you push it off too far, which I think we did in this case, people are going to come up and say, wait a minute, I did not know this was happening. I did not know this was me.

Having gone through the retirement age issue in my campaign, I was shocked—not surprised, but shocked—at the number of people who had no idea that the retirement age was being raised. I guarantee you, if you take national polls, most people will tell you that they have no idea the retirement age is being raised.

So do not be locked into what people are actually planning for this retirement being pushed back or any changes in the system. If you put it too far out, they will not think it is real.

Senator SIMPSON. Good advice from a warrior in the field. Thank you, Rick. You are a stalwart and you are a doer, and you do your homework. You are going to have a fine career here.

Well, thank you very much. You have been very helpful to us. We will look forward to visiting with you at some future time.

I want to thank Ron Niesing, who has been here with us on leave from the Social Security Administration, a remarkable professional, a GS–14 who is going to go back with a total new awareness of our views. There he is, his last day. Ron, you have been very special. You are a real pro. You are going to go back and tell them some things, are you not?

Mr. NIESING. Yes.

Senator SIMPSON. It will probably be the end of his career when he does. No, it will not. He will be there a long time.

Sandra Swirski, a very steady and wonderful person, and Chuck Blahous, my legislative director. Very bright, thoughtful people, and great assistants to me. They will be involved in this issue in future years in some form, on some staff. I thank them sincerely for their splendid work. I have appreciated it. I could not have done it in any way without their good service.

So, thank you again. I very much appreciate it. You give us a lot to think about, and we have a lot to do here if we really intend to do what we always talk about, and that is, take care of the children—all day long we talk about that—and take care of the seniors, and everybody else. We will never get it done if we do not begin to address this one, because the children will be the most effective as we talk about the most and do the least.

Thank you very much. I appreciate it. This concludes the hearing.

[Whereupon, at 12:04 p.m., the hearing was concluded.]

APPENDIX

Additional Material Submitted for the Record

FOR RELEASE ON DELIVERY

STATEMENT ON

the
1996 TRUSTEES REPORT

BY
DR. SHIRLEY S. CHATER
COMMISSIONER OF
SOCIAL SECURITY

BEFORE THE
COMMITTEE ON FINANCE
SUBCOMMITTEE ON SOCIAL SECURITY
AND FAMILY POLICY
U.S. SENATE

AUGUST 2, 1996

Mr. Chairman and Members of the Subcommittee:

I appreciate your invitation to discuss the status of Social Security's Old Age and Survivors Insurance (OASI) and Disability Insurance (DI) Trust Funds. In your letter of invitation you asked me to address four questions: what the 1996 report tells us about the current and future state of the trust funds; what has changed from previous reports; how soon I would recommend that Congress take action to restore the program's long-term solvency; and the public education efforts we have undertaken to inform the public about Social Security programs. I plan to address each of these questions.

The 1996 Trustees Report

The 1996 Trustees Report, which we have made available on the Internet, tells us that the assets of the combined funds increased by $59.7 billion, from $436.4 billion at the end of December 1994 to $496.1 billion at the end of December 1995. In 1995, the Social Security trust funds took in $399.5 billion and paid out $339.8 billion. In addition, over the next 10 years the combined assets of the OASI and DI Trust Funds are expected to increase from the current level of $496.1 billion to $1,276 billion or 221 percent of annual expenditures. Thus, the combined OASI and DI Trust Funds, as well as each fund separately, are adequately financed and meet the short-range test for financial adequacy for the next ten years.

The Trustees also project the status of the trust funds over the next 75 years, the period which is considered long range for program evaluation purposes. The OASI and DI programs are out of actuarial balance for the period ending in 2070. Actuarial balance is essentially the difference between annual income and costs summarized over a given period. If the balance is negative, as it is now, the fund has an actuarial deficit.

The deficit is generally expressed in terms of a percentage of taxable payroll rather than dollars because the value of a dollar changes over time. The deficit in this year's Report for the OASDI program changed very little from last year's Report, rising from 2.17 percent of taxable payroll to 2.19 percent.

I am pleased to report that, as has been true throughout the program's history, administrative expenses for the OASDI program were small in relation to benefits. Administrative expenses amounted to $3.1 billion in 1995, or less than 1 percent of benefits paid during the year.

Interest earnings on the invested assets of the combined OASI and DI Trust Funds were $35 billion in 1995. This represented an effective annual interest rate of 7.8 percent earned by the combined assets during the year. During the same period, the average interest rate on new securities purchased by the trust funds was 6.9 percent.

As you are aware, the Trustees develop three alternative sets of estimates based on varying economic and demographic assumptions to show a range of possibilities regarding the financial condition of the trust funds. These estimates range from low cost (alternative I) to high cost (alternative III). Alternative II, the intermediate set of assumptions, reflects the Trustees' best estimate of what future experience will be. The projections take into account fertility rates, mortality rates, net immigration rates, productivity increases, unemployment rates, cost of living increases, and other factors, all of which are difficult to predict with very much certainty.

Under the 1996 Trustees Report's intermediate assumptions, annual expenditures from the OASI and DI Trust Funds would become larger than the funds' combined annual tax income in 2012. However, because of interest income, total income would continue to exceed expenditures until 2019. The funds would begin to decline in 2019 and would be exhausted in 2029. Each of these three dates is a year earlier than was estimated in last year's Report. This is primarily due to three factors: a change in methodology regarding taxable earnings levels at the beginning of the 75-year projection period; a change in interest rates on new trust fund investments during the first several years; and the early-year costs associated with legislation enacted in March 1996 to increase the amounts that beneficiaries aged 65-69 may earn without having benefits withheld.

I want to clarify that exhaustion of the trust funds in 2029 would not terminate the Social Security program because continuing payroll taxes and income from taxes on benefits are expected to generate more than $2 trillion in revenues for the Trust Funds in 2029.

. The Trustees concluded, "We believe there is ample time to discuss and evaluate alternative solutions with deliberation and care. The size of the long-range deficit is such that long-range balance could be restored within the framework of the present program."

Purpose of Social Security

Social Security has been America's most successful domestic program. Today, Social Security provides benefits to more than 43 million workers and their families. In 1996, an estimated 142 million people worked in jobs covered by the OASDI program and paid OASDI contributions on their earnings, giving them the peace of mind that comes from knowing that they and their families will be protected when they retire or if they should become disabled or die. Nearly 1 in 6 Americans receives Social Security benefits, and 95 percent of Americans have the benefit protection provided by our programs.

Social Security was created during the Great Depression to ensure that working American families had a measure of economic security. It was designed to form the basis upon which workers could, with their own savings and private pensions, build protection for themselves and their families against retirement, disability, or death. There has always been a substantial segment of our population that works hard everyday to support themselves and their families, and yet do not have the means to ensure lasting economic security on their own. They do not have the resources to protect against the lost income that comes with old age, disability, or death of a worker. Social Security provides this necessary protection.

Social Security Offers Families Protection

I testified before this Subcommittee on the value of Social Security in March, and I would like to summarize the key points of that testimony because they are vital to any decisions involving the future of the program. The success and popularity of Social Security are based on the fact that it strikes a balance between the complementary goals of individual equity--

providing benefit protection which is related to an individual's contributions--and social adequacy--providing advantages to society as a whole by alleviating poverty and allowing as many citizens as possible to enjoy a reasonable standard of living. In other words, the social adequacy aspects of the program look beyond individual rates of return to how Social Security can benefit society as a whole. These features are designed to provide a measure of financial independence to all workers, including lower paid workers and their families.

As a social insurance program, Social Security spreads the cost of protection against the risk of lost income due to retirement, death, or disability over the entire working population, with more protection, per dollar of earnings, for lower paid workers and for workers with dependents. Consequently, the value of benefits for any given worker depends on his or her individual circumstances--whether the individual has high or low earnings, is married, has children, becomes disabled or dies before retirement, or receives benefits beyond average life expectancy. Many Americans are unaware that Social Security provides dependents' and survivors' benefits that are payable to the families of disabled workers and to survivors of deceased workers. This protection can be extremely valuable, especially for young families that have not been able to sufficiently protect themselves against the risk of the worker's death or disability. One way to gauge the value of Social Security disability benefits is to express them in terms of their value as insurance. The Social Security disability program provides the same value as a $203,000 disability insurance policy for an average worker with a spouse and two children. Last year, Social Security paid about $41 billion in benefits to about 6 million disabled workers and family members.

Similar value applies to the Social Security survivor program. Survivor benefits for an average worker are equal to a $295,000 life insurance policy. Social Security also paid about $67 billion in benefits to more than 7 million survivors of deceased workers last year, including 3 million children. We tend not to focus on the fact that one-fifth of today's 20-year-old men and one-eighth of today's 20-year-old women will die before retirement.

Social Security has had another important beneficial impact that critics of the program often fail to acknowledge. By dramatically increasing the extent to which retired and disabled workers, their dependents, and survivors of deceased workers are financially independent, Social Security has relieved younger generations of the burden of providing for the financial needs of older relatives at the same time they are trying to raise their own families.

Because Social Security is designed to meet certain social adequacy goals, we should not measure its worth simply by comparing contributions paid and benefits received. Certain features of the program are geared toward meeting broad-based social needs in addition to providing retirees with a specific rate of return.

The basic benefit formula is designed to replace a higher proportion of earnings for low earners than for high earners. This is in part because higher income workers are more likely to have accumulated greater savings or investment income than lower income workers. Also, it assumes that lower earners need to have more of their earnings replaced because they spend a higher proportion of their earnings for basic needs. Such workers generally are not able to accumulate savings or generate investment income to the extent that higher earners can. Also, many low earners have worked in jobs that have not provided pension coverage. Thus, the benefit formula provides lower income workers with a measure of financial independence without the requirement to establish need.

Program Can Fully Meet its Obligations for 33 Years

It is unfortunate that many people do not believe that Social Security will be there for them when they need it. It is there for them today. American workers are provided protection today through disability and survivors benefits. This country and its leaders have supported Social Security throughout its 60-year history, and I have no reason to believe the country will not continue to do so.

As I previously mentioned, the Trustees concluded that we have ample time to carefully consider the actions that must be taken to restore the program's long-term solvency. The size of the deficit can be addressed while preserving the framework of the present program.

Under the Trustees' current estimates, the program will be able to fully meet its benefit obligations for the next 33 years. However, the Trustees also emphasized that it is important to address the Social Security financing issue earlier rather than later. The earlier a bipartisan solution can be achieved, the less dramatic the changes will need to be.

As past successful efforts to reform Social Security have shown, changes to the program should occur based on a bipartisan plan after bipartisan debate and public discussion in the least political context. I have the utmost confidence that agreement will be achieved on a bipartisan basis on the changes necessary to ensure the continuing success of the program.

Public Education Critical to SSA's Success

Educating the American public is critical to achieving a resolution of the long-term solvency issue. An accurate understanding of the facts is needed as the foundation for public discussion. For the past 18 months, I have been traveling around the country, visiting almost 150 U.S. cities, to assure senior citizens and young people alike that Social Security is there to protect them today and that support for the program can be expected to continue.

As part of our public education efforts, we have contacted 17,000 secondary school principals from around the country and 15,000 of them have already requested Teacher's Kits. Also, Teacher's Kits have been downloaded over 6,000 times from our Internet site, which has been visited over 93,000 times. The kits use lesson plans, factsheets, handouts, a video, and a teacher's guide to present a comprehensive overview of the program.

We also issue a Personal Earnings and Benefit Estimate Statement (PEBES), so that workers can see exactly how much they have paid into Social Security, and what benefits they can expect when they retire. I know Senator Moynihan deserves much credit for requiring PEBES mailings. I have had countless people tell me how much they appreciate getting their PEBES, as I travel around the Nation, and how useful it will be in helping them plan their retirement. The people I have met are consistent in their praise of the information provided.

In addition, we launched a multi-media "National Education Campaign" on August 14, 1995, the 60th birthday of Social Security, which includes a series of public service announcements to educate the public about the value of Social Security benefits. These announcements have been distributed to 3,800 newspapers and 5,800 television and radio stations which have donated almost $4 million in free air time. These spots strive to make the public aware that Social Security is more than a retirement program. Thus, we cannot analyze Social Security's value to young workers' strictly by projecting retirement benefits and return on investment.

Conclusion

Today, we need to replace alarmist rhetoric with reasonable discussion. Over 60 years ago, America was faced with a difficult choice. It made the right choice: our nation believed Social Security was worthwhile and could work.

Just as we did over 60 years ago, we need to work together to reach a consensus on appropriate program changes. The basic Social Security structure that was developed over 60 years ago remains strong. Although we may need to refine the program, we cannot lose sight of the fact that it remains critical to our nation's well-being--keeping people out of poverty and keeping families together. By working together in a bi-partisan manner, we can ensure that this essential element of the Nation's economic structure will remain sound for years to come.

Statement of Stephen G. Kellison and Marilyn Moon, Public Trustees of the Social Security and Medicare Trust Funds, before the Senate Committee on Finance, Subcommittee on Social Security and Family Policy, August 2, 1996

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

It is our privilege to be here today to testify regarding the financial status of the Social Security Trust Funds as shown in the 1996 Annual Report of the Board of Trustees of those funds. As you know, the Public Trustees are part-time officials appointed by the President and confirmed by the Senate to represent the public interest in this important process of public accountability. In our normal activities, Mr. Kellison is an actuary and Ms. Moon is an economist and researcher, both with extensive public and private experience in Social Security and Medicare.

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

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

The Old-Age and Survivors Insurance Trust Fund

In the 1996 report, the Old-Age and Survivors Insurance (OASI) Trust Fund, which pays Social Security retirement and survivors benefits, shows a positive balance at the end of 1995 of $485.5 billion with a net increase in that year of $45 billion. This fund has been taking in more in tax revenues than it has been spending for a number of years and is projected to continue in that mode through 2013. As the baby boom generation begins to reach age 65 after 2010, OASI benefit costs each year will increase rapidly and, beginning in 2014, will exceed annual tax income.

However, the accumulated assets of the OASI fund, interest on those assets and tax revenues are projected to cover benefit outlays until 2031. Although at that time the assets of the OASI fund would be exhausted, tax income at rates provided under current law would provide approximately three-fourths of full benefit costs. Over the complete 75-year period for which projections are shown in the 1996 report, the OASI fund shows a deficit of 1.85 percent of payroll, which is approximately 15 percent of the projected long-range cost of the OASI program.

The Disability Insurance Trust Fund

Turning to the Disability Insurance (DI) Trust Fund, it also showed a net increase of $14.6 billion in 1995 and ended that year with a positive balance of $37.6 billion. Disability benefit costs are much more difficult to project than are retirement and survivors benefits. Moreover, historically the Social Security Disability Insurance program has experienced periods of growth and decline for which causes cannot be established with certainty. In the early 1990's the number of workers applying for disability benefits increased rapidly and there was great uncertainty whether this was a temporary or a long-term phenomenon. Actual experience in 1994 and 1995 shows that applications for disability insurance benefits have, in fact, leveled off. Also, recently enacted legislation authorizes funding for review of the disability status of more beneficiaries than has occurred in recent years.

Notwithstanding this recent experience, the DI program must be monitored closely in coming years as policymakers consider ways to close the deficit projected for this trust fund. The 1996 Trustees Report projections show that the DI fund tax income will exceed benefit payments through 2002, after which the fund will decline each year until it is exhausted in 2015. Over the 75-year projection period, the DI fund shows a deficit of 0.34 percent of payroll, or about 15 percent of the projected long-range cost.

If the DI and OASI trust fund projections are combined, the exhaustion date for the combined funds is 2029, 14 years later than for the DI fund alone and 2 years sooner than for OASI alone. On a combined basis, expenditures first exceed tax revenues in 2012.

Urgency for Action

The purpose of the trustees reports is to provide the President, the Congress and the American people each year an updated estimate of the current and future financial condition of the Social Security and Medicare trust funds. In our view, the projections in the 1996 Trustees Reports show that, as we wrote in our Message to the Public, "The most urgent priority now...is to enact legislation that extends the date of exhaustion of the HI trust fund", which, as you know, is projected to occur early in 2001. We noted further that, "Although HI's financing problem has received most of the attention recently, SMI's rate of growth has exceeded that of HI.... Legislation must be enacted quickly to reduce the growth of SMI expenditures in the near term and allow time for development of longer term solutions to financing the health care of the aged once the leading edge of the baby boom begins to reach age 65."

We in no way intend by giving highest priority to HI and SMI financing in our 1996 statements to indicate that action to develop solutions to the future deficits of OASI and DI should be slowed. In fact, we have been encouraged by the widening public discussion that is taking place regarding Social Security's future financing. Articles, speeches, and a variety of other media are increasingly focusing attention on Social Security's projected problems and possible solutions. One recent interesting example of this widening discussion is the debate on Social Security financing moderated by economist Herbert Stein in the July 15-19, 1996, edition of the new Microsoft electronic magazine, Slate (www.slate.com).

We do believe that as we stated in our Message, "Immediate changes in OASI are not necessary and the magnitude of the program changes that will eventually be needed will be less than those required for HI and SMI. Action should be taken soon, however, to allow time for phasing in any changes and for workers to adjust their retirement plans to take account of those changes." The points we want to make in regard to the timing of OASI reform legislation are that 1) changes should by enacted just as soon as a plan can be developed which has the support of the American people and 2) the effective dates of any program changes should be far enough in the future for people to adjust to them. For example, the change in the retirement age enacted in 1983 is first effective for workers who reach age 62 in 2000 and is phased in gradually.

The need for action soon regarding Social Security's financing deficit also is twofold: the sooner changes are enacted the more time will be available to phase in those changes and the more broadly can the burden of closing the financing deficit be distributed across different age groups. For illustrative purposes only, if it were decided to eliminate OASI's 75-year projected deficit beginning in 1997 through either tax increases or benefit reductions alone, employers and employees each would have to pay about 18 percent higher taxes in all future years (i.e., about 6.3 percent of taxable earnings rather than the current 5.35 percent) or benefit expenditures would have to be reduced by about 15 percent. If such changes were not effective until 2010, the tax rate would have to be increased 22 percent (to 6.54 percent) or benefits reduced about 18 percent, and, if changes were delayed until 2025, taxes would have to be 33 percent higher (7.11 percent) or benefits reduced about 25 percent. We should note that while the tax increases and benefits reductions in this example would ensure payment of benefits over the 75-year period, they would not provide a stable trust fund beyond that point. Other types of changes would have similar increases in size if their effective dates were significantly delayed. Thus, while we have time to consider and plan carefully for necessary changes in Social Security, we should act as soon as support for a reform plan can be developed.

Possible Next Steps

A crucial part of the process to resolve Social Security's financing deficit must be the education of the American public so that they understand and accept both the need for change and the implications of alternative reform plans. We view this education responsibility as one in which the Public Trustees can play a role by expressing a factual, bipartisan view, and we welcome the opportunity to participate in this hearing and future efforts to bring the dimensions of Social Security's financing problem to the public.

While there clearly is no consensus at this point on a particular package of Social Security changes, we think that comprehensive reform plans such as those introduced by Representatives Pickle and Rostenkowski in the last Congress, by you, Mr. Chairman, and Senator Kerrey in this Congress, and those of the current Social Security Advisory Council contain all of the basic elements from which to construct a responsible package that the public can support. The biggest challenge now appears to be reaching agreement on whether to make incremental changes within the current Social Security structure or to change that structure to at least partially "privatize" it.

Social Security's financing deficit can be solved with OR without major structural change, but a first step may be to resolve the philosophical debate about the value of privatization. And while our political process does not always settle such debates neatly, we have every confidence that a way to fix Social Security's financing problem will be enacted in a timely manner.

We have attached the four-page "Message From the Public Trustees" that is included in the *Summary of the 1996 Annual Reports,* as well as our biographical information. We thank you for the opportunity to present our views and will be pleased to answer any questions.

THE PUBLIC TRUSTEES

Six people serve on the Social Security and Medicare Boards of Trustees: the Secretary of the Treasury, the Secretary of Labor, the Secretary of Health and Human Services, the Commissioner of Social Security, and two public members (of different political parties) appointed by the President with the advice and consent of the Senate. The Boards are responsible for reporting annually to the Congress on the financial operations of the Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) Trust Funds, the Hospital (HI) Insurance Trust Fund, and the Supplementary Medical Insurance (SMI) Trust Fund, and on the projected financial outlook of these funds for future years. The OASI and DI Trust Funds provide financing for the retirement, survivors, and disability benefits under Social Security, and the HI and SMI Trust Funds finance the Medicare program. In addition to the annual report to Congress, the Boards are required to notify the Congress immediately when the amount in one of the Trust Funds is unduly small and to review the general policies followed in managing the Trust Funds. The Public Trustees positions were created by the Social Security Amendments of 1983 for the purpose of increasing public confidence in the integrity of the trust funds. Stephen Kellison and Marilyn Moon began 4-year terms as Public Trustees on July 20, 1995.

Stephen G. Kellison

Stephen G. Kellison is Vice President and Chief Actuary of the Variable Annuity Life Insurance Company of Houston, Texas. Mr. Kellison dealt extensively with a variety of public policy issues as Executive Director of the American Academy of Actuaries from 1976 to 1988. He has also served on the faculties of the University of Nebraska-Lincoln and Georgia State University. Mr. Kellison is a Fellow of the Society of Actuaries, a Member of the American Academy of Actuaries, and an Enrolled Actuary under the Employee Retirement Income Security Act of 1974. He served a Chairman of the Technical Panel of Actuaries and Economists to the 1991 Advisory Council on Social Security and as Chairman of the Committee on Social Insurance of the American Academy of Actuaries. He also has held leadership positions within the actuarial profession, serving on both the Board of Governors of the Society of Actuaries and the Board of Directors of the American Academy of Actuaries. Mr. Kellison holds A.B. and M.S. degrees from the University of Nebraska-Lincoln and is an author, speaker and expert witness in the areas of actuarial science, insurance, and employee benefits.

Marilyn Moon

Marilyn Moon is a Senior Fellow with the Health Policy Center of the Urban Institute in Washington, D.C. She is currently serving as Program Director for the Commonwealth Fund's Program on Medicare's Future. From 1986-1989, she served as Director of the Public Policy Institute of the American Association of Retired Persons. In the fall of 1989, she served as a consultant to the U.S. Bipartisan Commission for Comprehensive Health Care (the Pepper Commission). Earlier, she worked as a Senior Research Analyst at the Congressional Budget Office, and as an Associate Professor of economics at the University of Wisconsin-Milwaukee. Ms. Moon also is a founding member of the National Academy of Social Insurance and serves on its Board of Directors. Ms. Moon has written extensively on Medicare, poverty, health, income distribution, and long-term care issues. Her recent publications include *Medicare Now and in the Future*, "Can States Take the Lead in Health Care Reform?", and "An American Approach to Health System Reform." She received her Ph.D. in economics from the University of Wisconsin.

FROM <u>A SUMMARY OF THE 1996 ANNUAL REPORTS</u> OF THE SOCIAL SECURITY AND MEDICARE BOARDS OF TRUSTEES

A MESSAGE FROM THE PUBLIC TRUSTEES:

This is the first set of Trustees Reports in which we have participated since we began four-year terms as Public Trustees on July 20, 1995. Our goal as Public Trustees is to ensure the integrity of the process by which these Reports are prepared and the credibility of the information they contain. We are honored that the President and the Senate have entrusted us with this responsibility. Further, although we are of different political parties, we approach our work as Public Trustees on a bipartisan basis because we strongly believe that this is the only way through which financial problems facing Medicare and Social Security can be solved. It is in this vein that we offer the following observations regarding the 1996 Annual Reports.

<u>Medicare Hospital Insurance Trust Fund</u>

Beginning in 1993 the Board of Trustees has notified the Congress each year that the Hospital Insurance Trust Fund's assets were projected to be exhausted within a decade. Under the intermediate assumptions in the 1996 Annual Reports, the fund will be depleted in early 2001--less than 5 years from now. Legislation extending prospective payment systems to additional types of health care providers and further limits on payment increases could postpone depletion of the HI fund beyond 2001. Both the President and the Congress have made such proposals, and a set of these changes should be enacted quickly.

Further steps will be required over the next decade to continue slowing the rate of growth of health care spending. But, changes in Medicare policy for the longer run cannot be made in a vacuum. Medicare is a major part of the U.S. health care system, and changes in Medicare will have indirect affects on the delivery of health care to all Americans. Conversely, in searching for ways to reduce future Medicare costs, it will be essential to learn from the restructuring that is underway in other parts of the health care system.

Beyond 2010, the primary reason HI expenditures are projected to rise sharply is demographic -- the aging of the baby boom generation. Reducing the health care costs of baby boom and later retirees will require looking beyond changes in payments to providers -- to improved health education and specific prevention and risk reduction steps, in addition to a wide range of health care delivery alternatives and financing options.

The most urgent priority now, however, is to enact legislation that extends the date of exhaustion of the HI trust fund. Such action could avoid abrupt changes in health care for the aged in the next several years and provide time to devise and test strategies for further substantive reforms in HI.

Medicare Supplemental Medical Insurance Trust Fund

SMI trust fund expenditures have been increasing at a rapid rate for many years and are projected to nearly triple by 2020. Such growth is unsustainable over time. Under current law SMI income is projected to continue to equal outgo each year, but only because beneficiary premiums and the government's general revenue contribution are automatically increased each year to meet projected costs. However, general revenues, which paid about 70% of SMI costs from 1990-1995 (with beneficiary premiums supplying most of the remainder), are projected to pay 84% of those costs by 2005 and an increasing portion thereafter. In today's fiscal climate, the question that must be asked is where the additional general revenue payments for SMI are going to come from.

Although HI's financing problem has received most of the attention recently, SMI's rate of growth has exceeded that of HI, and SMI's cost is projected to surpass that of HI by 2010. Both parts of the Medicare program suffer from the high rates of growth in all health care spending and future pressure from an aging population. Legislation must be enacted quickly to reduce the growth of SMI expenditures in the near term and allow time for development of longer term solutions to financing the health care of the aged after the baby boom begins to reach age 65.

Further, we believe that the search for longer term solutions forces consideration of another basic question about Medicare reform: Is there a compelling reason today to continue the coverage and financing distinctions between HI and SMI?

The Old-Age and Survivors Insurance Trust Fund

The aging of the baby boom generation also will increase OASI costs, but OASI annual income, including interest, will exceed outgo until 2019. Thus, the financing deficits facing OASI are smaller and farther in the future than those facing either HI or SMI. Immediate changes in OASI are not necessary and the magnitude of the program changes that will eventually be needed will be less than those required for HI and SMI. Action should be taken soon, however, to allow time for phasing in any changes and for workers to adjust their retirement plans to take account of those changes.

The Advisory Council on Social Security has put forth three different approaches to deal with the long term actuarial deficit in OASI. Those and other plans deserve serious discussion now so that reform legislation can be developed in the next few years which can gain the support of the American public.

Disability Insurance Trust Fund

In the early 1990's the number of workers applying for disability benefits increased rapidly, and the Board of Trustees called for research to determine whether this rapid growth was a temporary or long-term phenomenon. While that research is continuing, actual experience in 1994 and 1995 shows that applications for DI leveled off during this period. The fact that the DI program has, throughout its history, experienced periods of grown and decline for which causes cannot be established with any precision continues to be a cause of concern. However, DI trust fund expenditures are now the smallest of the four funds and are projected to decline relative to the three other funds in the future. Also, recent legislation authorizes funding for review of the disability status of more beneficiaries than has occurred in recent years. Nonetheless, the DI fund should be carefully monitored and its experience assessed in developing legislation to close the deficit projected in the DI fund in the decades ahead.

Other Issues

As the 1996 report notes, serious issues for projecting the future financial health of Medicare and Social Security have been raised by studies regarding measurement of increases in the cost of living and recent changes in the measurement of real GDP growth. No adjustments were made in the 1996 reports regarding projected changes in the CPI and economic growth because it was not possible to develop a good understanding of all of their implications in time for this report. There may be important impacts from these changes on trust fund projections and they may not all shift in the same direction, but further analysis is needed. The Board is committed to doing the work necessary to incorporate the changes in the 1997 Annual Reports, and this will be a priority for us in the next year.

We are privileged to take part in the thorough and careful process by which the Annual Reports are prepared to provide this vital public accounting. We strongly believe that these reports serve as an early warning of the need for changes to ensure continuation of these programs and not as evidence of their failure to protect future generations. Working cooperatively, with informed public debate, we believe solutions to the financing problems facing America as our population ages can be found, and it is in this spirit that we will pursue further efforts at public education on Social Security and Medicare issues during our terms as Public Trustees.

Stephen G. Kellison
Trustee

Marilyn Moon
Trustee

ALAN K. SIMPSON
WYOMING

United States Senate
WASHINGTON, DC 20510-5002

Opening Statement of Senator Alan K. Simpson
Subcommittee on Social Security and Family Policy
August 2, 1996

GOOD MORNING AND WELCOME TO THIS HEARING OF THE SUBCOMMITTEE ON SOCIAL SECURITY AND FAMILY POLICY. WE ARE MEETING AT A TIME OF INTENSE SENATE ACTIVITY, SO I AM ESPECIALLY GRATEFUL TO EVERYONE WHO HAS TAKEN THE TIME AND TROUBLE TO ATTEND.

IN JUNE OF THIS YEAR, WE RECEIVED FROM SOCIAL SECURITY'S BOARD OF TRUSTEES THEIR ANNUAL REPORT ON THE STATUS OF THE SOCIAL SECURITY RETIREMENT AND DISABILITY PROGRAMS. TODAY WE CONVENE TO DISCUSS THE FINDINGS OF THE TRUSTEES AND THE NEED TO PROPERLY EDUCATE THE AMERICAN PUBLIC ABOUT WHAT THEY ARE TELLING US. BECAUSE THAT IS WHAT WILL ULTIMATELY DETERMINE WHETHER AND HOW WE CAN ACT TO RESTORE LONG-TERM SOLVENCY TO THE SOCIAL SECURITY SYSTEM. ELECTED OFFICIALS CANNOT BEGIN TO ACT UPON THIS INFORMATION SO LONG AS THERE IS PUBLIC IGNORANCE OF IT, AND SO LONG AS THE ELECTORATE'S VIEW OF SOCIAL SECURITY IS AT ODDS WITH THE FACTS.

THE FACTS ARE THESE: THE SYSTEM CONTINUES INEXORABLY TO LURCH TOWARD TRUST FUND INSOLVENCY. WITH EACH PASSING YEAR, WE MOVE EVER CLOSER TO A GAPING FINANCIAL CHASM. THE YEAR IN WHICH WE FACE THE FIRST DEFICITS IN SOCIAL SECURITY, WHEN REVENUES INTO THE SYSTEM WILL NOT MEET ALL PROJECTED BENEFIT PAYMENTS THAT HAVE BEEN PROMISED, HAS AGAIN CREPT A YEAR CLOSER -- TO 2012.

EVEN IF WE HAD SAVED EVERY PENNY OF THE "TRUST FUND" TO PAY FOR RETIREMENT, SURVIVORS, AND DISABILITY BENEFITS, IT WOULD BE TOTALLY EXHAUSTED -- BANKRUPT -- BY 2029. AT THAT TIME, PROJECTED REVENUES INTO THE SYSTEM WILL PAY FOR ONLY 76 PERCENT OF THE BENEFITS THAT WILL BE DUE.

I REPEAT -- THIS IS THE OPTIMISTIC VIEW. IT PRESUMES THAT WE CAN "DRAW DOWN" A TRUST FUND TO PAY FOR BENEFITS BETWEEN 2012 AND 2029. IN REALITY, THE MONEY TO PAY FOR THOSE BENEFITS IS TO BE RAISED -- BY LAW -- FROM GENERAL REVENUES. THAT'S THE "DOUBLE HIT" I OFTEN TALK ABOUT. PEOPLE WOULD SEE THEIR GENERAL TAXES RAISED IN 2012, AND THE SYSTEM WOULD STILL GO BROKE IN 2029! THIS OUGHT TO SEND SHIVERS UP THE SPINES OF THE PUBLIC AND THE CONGRESS. EVERYONE WHO HAS A STAKE IN THE FUTURE STABILITY OF RETIREMENT PLANNING AND LIFESTYLES -- AND THAT IS ALL OF US -- NEEDS TO BE AWARE OF THE CRITICAL INFORMATION IN THE TRUSTEES REPORT.

THE TRUSTEES ARE TELLING US ONCE AGAIN THAT THE TRUST FUNDS DO NOT MEET THE LONG-RANGE TESTS OF FINANCIAL SOLVENCY. THERE IS NO MISTAKING THE DIRECTION IN WHICH SOCIAL SECURITY IS MOVING. WE NEED TO EXAMINE THIS ISSUE, DEBATE OUR OPTIONS, AND TAKE ACTION QUICKLY IF WE ARE TO ENACT CHANGES THAT ARE FAIR, GRADUAL, AND PLANNED. THE ALTERNATIVE IS ONLY CHANGE THAT IS DRASTIC, UNFAIR, AND DRAMATIC. CHANGE MUST COME BECAUSE WE ARE ON AN UNSUSTAINABLE COURSE. FUTURE RETIREES, WHO HAVE A VITAL STAKE IN THE FUTURE OF SOCIAL SECURITY, ARE LOOKING TO US -- INCLUDING CURRENT AND NEAR-TERM RETIREES -- TO DO OUR BIT TO SOLVE THE LONG-TERM SOCIAL SECURITY SOLVENCY PROBLEM.

ONE KEY TO A FAIR SOLUTION IS ENSURING THAT THE AMERICAN PUBLIC IS FULLY AWARE OF THIS ISSUE AND EDUCATED ABOUT THE VARIOUS OPTIONS THAT ARE AVAILABLE TO FIX THE PROBLEM. THERE IS A CRYING NEED FOR BETTER EDUCATION, NOT ONLY ABOUT SOCIAL SECURITY, BUT IN THE WHOLE AREA OF RETIREMENT PLANNING. THE MORE EDUCATED EVERYONE IS, THE BETTER STOCKED WILL BE THE "MARKETPLACE OF IDEAS." BUT HIDING THE FACTS FROM THE PUBLIC IN THE DESPERATE HOPE THAT THEY WILL GO AWAY IS A DISSERVICE TO THE PEOPLE.

THE AMERICAN PUBLIC NEEDS TO BE FULLY AWARE OF WHAT THE TRUSTEES OF SOCIAL SECURITY ARE TELLING US IN THEIR ANNUAL REPORTS. EVERYONE WHO STANDS TO RETIRE SORELY NEEDS TO KNOW THAT CHANGE TO THE SOCIAL SECURITY PROGRAM IS COMING. WE OWE THEM THAT INFORMATION. ONLY WHEN SO INFORMED CAN AMERICANS HOPE TO PLAN FOR SIGNIFICANT CHANGE.

THERE IS CLEAR EVIDENCE THAT EDUCATION PLAYS A CONSTRUCTIVE ROLE IN HELPING PEOPLE TO UNDERSTAND AND TO PLAN FOR THEIR OWN RETIREMENT NEEDS. SURELY, EDUCATION IS SIMILARLY CRITICAL IN IMPROVING THE WORKINGS OF OUR SINGLE MOST IMPORTANT RETIREMENT SYSTEM -- SOCIAL SECURITY. AS CHANGES TO SOCIAL SECURITY EVOLVE IN THE EARLY 21ST CENTURY, PEOPLE OF NECESSITY WILL HAVE TO PLAY A GREATER PART IN PLANNING FOR THEIR OWN RETIREMENT. WE MUST AGAIN BECOME A NATION OF "SAVERS" AS WE WERE EARLIER IN THIS CENTURY.

AT THE VERY LEAST, WE MUST NOT DELUDE OR MISLEAD WORKERS INTO BELIEVING THAT CURRENT RETIREMENT PROGRAMS ARE FACING A ROSY FUTURE. ALL THREE FOUNDATIONS OF THE RETIREMENT SCHEME -- SOCIAL SECURITY, PENSIONS, AND PERSONAL SAVINGS -- FACE UNCERTAIN FUTURES. THE AMERICAN PUBLIC DESERVES TO

KNOW WHAT CHANGES ARE LIKELY OR INEVITABLE, GIVEN DEMOGRAPHIC TRENDS.

THE SOCIAL SECURITY ADMINISTRATION, DESPITE ITS CURRENT CHARTER GUARANTEEING ITS POLITICAL INDEPENDENCE, HAS FAILED TO COME FORWARD TO PROPOSE SOLUTIONS TO THE INSOLVENCY OF THE PROGRAM FOR WHICH IT IS RESPONSIBLE. YET IT CONTINUES TO CONDUCT A PUBLIC RELATIONS CAMPAIGN THAT FUNDAMENTALLY MISREPRESENTS REALITY IN PACKAGES SUCH AS THE "TEACHER'S KIT". THIS IS A PACKAGE THAT IS SENT OUT TO HIGH SCHOOLS ACROSS THE COUNTRY TO ASSURE YOUNG AMERICANS THAT ALL IS WELL.

YOUNG PEOPLE TODAY ARE BECOMING INCREASINGLY AWARE OF THE PROBLEMS THAT CONFRONT SOCIAL SECURITY IN THE FUTURE. WHEN KNOWLEDGEABLE YOUNG PEOPLE DISCUSS THE MATERIAL IN THESE TEACHER'S KITS, THEIR CYNICISM ABOUT THE WHOLE SYSTEM OF GOVERNMENT GROWS. AS FOR THE UNAWARE, THEY BECOME MORE COMPLACENT, AND THE BLIND TRUST THEY PLACE IN THE FUTURE PROMISED BY SOCIAL SECURITY LEAVES THEM ILL PREPARED FOR THE CHANGES THAT ARE SURE TO COME.

THE SOCIAL SECURITY TEACHER'S KIT TELLS US THAT SOCIAL SECURITY BENEFITS ARE ASSURED BECAUSE "THE PROGRAM IS COMPULSORY AND CAN COUNT ON FUTURE INCOME FROM TAXES." IT GOES ON TO STATE THAT TODAY'S YOUNG WORKERS CAN BE CONFIDENT OF FUTURE BENEFITS BECAUSE OF THE "GROWING FINANCIAL STRENGTH OF THE SYSTEM AND BUILDUP OF RESERVES TO PAY FUTURE BENEFITS."

WE ALL KNOW THAT THE FACTS DO NOT SUPPORT THESE CLAIMS. CURRENT SOCIAL SECURITY PROMISES CAN ONLY BE SUSTAINED, IF IN THE NEAR FUTURE, WE AGREE TO RAISE TAXES. MOREOVER, THE SYSTEM CANNOT BE SAID TO EXHIBIT "GROWING

FINANCIAL STRENGTH" WHEN THE DOOMSDAY DATE GROWS CLOSER EVERY YEAR. THE SOCIAL SECURITY ADMINISTRATION MUST COME CLEAN AND BRING FORWARD THE REAL FACTS. THE AGENCY MUST CORRECT THESE ERRORS AND MISLEADING STATEMENTS. IT CANNOT CONTINUE TO PROMISE THE DELIVERY OF BENEFITS WHICH CURRENT LAW CANNOT SUPPORT. IT MUST BE AT THE FOREFRONT OF THE DEBATE ABOUT SYSTEM REFORM.

IT IS WITH THAT PRINCIPLE IN MIND THAT WE WILL BEGIN TODAY'S DISCUSSION OF THE SOCIAL SECURITY TRUSTEES REPORT. TODAY, WE WILL HEAR FROM THREE VERY CAPABLE WITNESSES. FIRST, THE COMMISSIONER OF SOCIAL SECURITY, DR. SHIRLEY CHATER. SHE WILL BE FOLLOWED BY THE TWO PUBLIC TRUSTEES OF SOCIAL SECURITY, MARILYN MOON AND STEPHEN KELLISON. WELCOME TO EACH OF YOU. LET US BEGIN.

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