Committee On Finance
Max Baucus, Chairman

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STATEMENT BY SENATOR MAX BAUCUS
SOCIAL SECURITY HEARING

Today, we are going to consider the recommendations of the President's Commission to Strengthen Social Security. Before going any further, I wish to express my disappointment that Treasury Secretary O'Neill has not agreed to testify. As the Managing Trustee of the Social Security Trust Funds, Secretary O'Neill plays a unique role. Thus, we worked hard to accommodate his schedule. We originally planned to hold this hearing on July 31, but agreed to reschedule it because Secretary O'Neill was expected to be out of the country at that time.

We then tried to find a date in September when Secretary O'Neill could testify. In fact, we told Secretary O'Neill that we would hold the hearing on any date in September that he would be available. Unfortunately, Secretary O'Neill has declined our invitations. At this point, we have no choice but to proceed without the benefit of the Secretary's testimony. That said, let me turn to the issue at hand.

Social Security represents a solemn commitment from one generation to the next. Social Security is the major source of income for most of the elderly. About two-thirds of aged Social Security beneficiaries receive at least half of their income from Social Security. For about 20 percent, Social Security is the only source of income.

Without Social Security, more than half of elderly women would be living in poverty. And Social Security provides more than just retirement benefits. Disabled workers and their dependents account for 15 percent of total benefits paid. Almost three in ten of today's 20 Year-olds will become disabled before reaching age 67. And in 2001, the insurance value of Social Security benefits for a young disabled worker with a spouse and two children is about a $353,000.

Survivors of deceased workers account for another 15 percent of Social Security's total benefits. An estimated 97 percent of young children and their parents are insured for survivors benefits through Social Security. And Social Security survivor's protection is equivalent to a $403,000 life insurance policy. Therefore a strong Social Security program is absolutely critical, for seniors, for the disabled, and for those who survive.

We cannot compromise our commitment. At the same time, we all must recognize that, over the long term, Social Security's finances need to be improved. As it now stands, the Social Security Trustees estimate that the Social Security Trust Fund will become exhausted in 2041. At that point, there will still be a lot of payroll tax money coming in each year. But the revenues will not be enough to pay full benefits. For example, in 2041, there will only be enough revenue coming in to pay about 73% of promised benefits. So it is clear that we need to do something to shore up Social Security's finances.

At this point, there are several alternative approaches. One is embodied in the work of the President's Commission. Specifically, the President has proposed to establish voluntary private personal savings accounts for workers. Some amount of the worker's payroll taxes would be diverted into the private accounts instead of going into the Social Security Trust Fund. This is usually referred to as "partial privatization" of Social Security. The President set up a Commission to flesh out his proposal, and the Commission came up with three specific options. We are here today to discuss and evaluate those proposals, in the hope that it will help us move the debate forward.

Having said that, I have very serious concerns about the options proposed by the Commission. With all due respect, both the President's proposal and the Commission's report take us down the wrong track. Let me be more specific, by addressing some of the details of the options that the President's Commission has proposed.

For one thing, although these plans are advertised as voluntary, a retiree who chooses not to participate would have his or her Social Security benefits cut deeply anyway. In Montana, we would not call such a system voluntary.

Second, for many of the workers who do choose to participate, their total retirement income, including money from their private accounts, would be significantly less than under current law, not more. And the decline would be even worse if the stock market fell like it has over the past three years.

Third, the proposal would cut traditional Social Security benefits deeply for disabled individuals, even though their private accounts could not be accessed until they reached retirement age.

Fourth, the proposals would all make the Social Security Trust Fund exhaust earlier than under current law, not later. For example under option 1, the Trust Funds would exhaust in about 2033 rather than in 2041 as under current law.

The Commission prefers to use an alternative measure of the year that Social Security's finances reach a dangerous point. They say that this point will be reached in 2017. Yet, even using this measure, under all three of the Commission's options, Social Security would hit the danger spot earlier than under current law. For example, under the Commission's option 2, this point would be reached in 2011.

Finally, even with these flaws, all of the Commission's options would require trillions of dollars of general revenues from the Treasury in order to work. However, the general fund of the Treasury is likely to be in deficit for a long time into the future, so it is completely unclear where this money will come from. All in all, I am concerned that the Commission's proposals for partial privatization would make the Social Security system worse, not better.

Others, obviously, may disagree. That is why we are holding this hearing, to see if we can get a better understanding of the Commission's proposals, and the effect that they would have on the health of the Social Security system. I look forward to the testimony of our witnesses.