

Testimony of

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“The Mythology of Fear”

Over 75 years ago, President Franklin Delano Roosevelt, spoke these words:

"We can never insure one-hundred percent of the population against one-hundred percent of the hazards and vicissitudes of life. But we have tried to frame a law which will give some measure of protection to the average citizen and to his family against ... poverty-ridden old age. This law, too, represents a cornerstone in a structure which is being built, but is by no means complete.... It is...a law that will take care of human needs and at the same time provide for the United States an economic structure of vastly greater soundness."

My grandfather uttered these words on August 14, 1935, on the proud occasion of his signing the Social Security Act into law.

They expressed a fundamental belief shared by him and my grandmother that all people should be free from fear of want and destitution. My grandparents possessed an almost boundless sense of optimism in the American people; freed from our fears, they had faith that we could move mountains. Thus, in 1933 President Roosevelt summoned the courage of the American people with the immortal words: “the only thing we have to fear is fear itself.”

Like my grandfather, I strongly believe we cannot address the problems confronting our nation through the politics of fear. Too often, we have seen the politics of fear move us to adopt shortsighted and sometimes irrational solutions.

Our federal deficit is growing and as a nation we need to address this issue. But we need to do so in a clear-sighted and thoughtful manner. Demonizing social security and Medicare is the wrong path.

The critics of our Social Security program tell us to fear that Social Security is not working, to fear that it is bankrupting the country and to fear that it cannot be counted on in the future.

Critics of Social Security call it “insolvent”, and say “it’s paying out more than it’s taking in” or “there is no surplus in there.”

Fear, my grandfather said, is “nameless, unreasoning, unjustified terror which paralyzes needed efforts to convert retreat into advance.”

The truth about Social Security is that it has contributed to the financial wellbeing of almost every American family. The truth about Social Security is that it is solvent today because it has a dedicated income stream that covers its costs and is actuarially sound; and **more importantly, with minor adjustment it will remain solvent for decades to come.**

Social Security has transformed American society

Social Security has been the most successful government program of the past 75 years. No program has touched more American lives and benefited more American families. Today, approximately 52 million Americans receive Social Security benefits each month. Even those who have not drawn a single Social Security check have benefited. While it was forged in the heat of the Depression, Social Security remains every bit as relevant and important to Americans today. With only minor adjustments, this program will be there for Americans who have not yet been born.

The success of the program is rooted in the two words that comprise its name: “social” and “security.” Social Security is a *social* insurance program for American families. It is rooted in our belief that as members of society we have obligations to each other. We are committed to protecting our fellow Americans from the economic ravages of old age, disability and death. We see a benefit in spreading risks across society rather than placing

the full burden of what my grandfather called the “hazards and vicissitudes of life” on individuals and individual families. These obligations extend across time. One generation supports the next generation, which supports the next generation, and so on.

As Barack Obama stated in his very first speech before the National Press Club, which he delivered in 2005 on the topic of Social Security, “we are all connected as one people—ready to share life’s risks and rewards for the benefit of each and good of all.”

The *security* in Social Security is vitally important to Americans. My grandfather thought of Social Security as part of a three-legged stool of financial security. Social Security would provide an income floor below which no American family would fall as a result of old age, disability or death. Social Security was not intended to stand-alone; it was to be supplemented by savings and private pension systems. Today, it may be more accurate to think of Social Security as the bedrock of a secure retirement, as the two other legs in the stool have become increasingly wobbly.

Private pension plans are looking more and more like historical anomalies, as they currently cover only about 20 percent of private sector employees. And the national savings rate, despite its current positive blip, provides little comfort that contemporary Americans are any better able to provide for their later years than our forebears.

Americans understand that, “there but for the grace of God go I.” They want to protect their families from the tragedies that can befall anyone and which no one can control. The pushers of ill-conceived privatization schemes miss the point that Americans want to be able to count on something real for themselves and their families. They might be willing to assume greater risks in their 401(k) accounts to earn higher returns, but this is because they have Social Security on which to fall back.

We are just now coming out of the worst financial crisis since the Great Depression. Economists are finding that low probability events, like stock market crashes, occur much more frequently than we think. Or as economists would put it, the “thin tails” of a

normal distribution curve are often fatter than we suspect. Stock markets have experienced two "once in a generation" declines in just the past ten years. Individuals who are retired or hope to retire soon have seen their retirement savings disappear. But there stands Social Security. Beneficiaries can mark their calendars by the arrival of their check each month.

Social Security has truly transformed American society. In 1959, 35 percent of Americans aged 65 and older had family incomes below the federal poverty line. Today that figure is 10 percent – marking more than a 70 percent reduction in the proportion of elderly Americans living in poverty. In my grandparent's day, old age was something to be feared. Today, despite financial challenges such as the high costs of prescription drugs, Social Security provides retirees with much greater financial security and peace of mind. If we took away Social Security benefits, it is estimated that nearly half of the elderly in this country would have incomes below the poverty line.

It is interesting that many critics of Social Security make an "intergenerational equity" argument that the program is not fair to workers paying into the system today. This argument depends on the utterly baseless assumption that Social Security will not pay future retirement benefits to people contributing today. But let's even assume for one minute that that were true. Think about the burdens that young families would face today if they also had to provide financial support or a home for their aging parents. Think about the extreme hardships many families would endure if not for the long-term disability and survivor benefits that Social Security provides.

We associate Social Security with retirees but nearly one in five recipients of Social Security benefits are children under the age of 18. They may be children whose father is disabled or whose mother was killed in the attacks on 9-11. Families face many financial stresses, from the costs of food to health care to college, but there are many stresses that they don't have to bear because of Social Security. The essentials of providing clothing and shelter are stresses that are lessened for people receiving Social Security.

It is not surprising then that Social Security is so popular with the American people. Poll after poll confirms this. The poll numbers have not escaped the notice of the critics of Social Security. Today these critics no longer talk about eliminating or privatizing Social Security. Instead, they speak in Orwellian language about “saving,” “strengthening,” and “protecting” Social Security. To advance their hidden agenda, they have developed a “mythology of fear,” trotting out their themes of a program that is “in crisis,” “bankrupt,” “broke,” and, in the wake of Madoff, even a “ponzi scheme.”

Sharron Angle from Nevada, a Tea Party and the Republican Party celebrity of sorts, has repeatedly called for phasing out Social Security over time, characterizing it as "a broken system without much to recommend it." She has voiced support for shifting younger workers to private retirement accounts, an idea similar to what former President George W. Bush proposed six years ago in his veiled effort to dismantle the program.

Most Americans can see through the deception, but I am wary that many Americans, as much as they support Social Security, are questioning whether it will be there when they retire. This is a dangerous trend. Social Security needs to do more to educate Americans of the benefits and stability of Social Security. We need to debunk those “nameless, unreasoning, unjustified terrors” that are being perpetuated by those whose philosophy of economics doesn’t take into account the unarguable success of Social Security.

Social Security is financially stable

There is a saying that if you repeat something often enough it becomes the truth. Nothing better illustrates that point than the notion that Social Security will be bankrupted by Baby Boomers.

Supposedly it is the enormous bulge of retirees from this generation that will sink Social Security once and for all. Indeed, the generation of Americans born between 1946 and 1964, who drew their first retirement checks from Social Security in 2008, will place

heavy demands upon the system as they reach their retirement years. But this is also a generation that has been paying into the system since they started working in the early 1960s. The critics of Social Security often "forget" - conveniently I think - about the "pay it forward" aspect of Social Security. They "forget" that Social Security is an insurance program, where people need to contribute before they collect. The Baby Boomers have been contributing to Social Security for more than forty years. It is through their contributions that Social Security has amassed massive surpluses. Much of the money that the Baby Boomers are, and will be, drawing from Social Security is and will be their own.

We have known about the impact of the Baby Boom generation for a long time. It is not as if we woke up yesterday and discovered that there are millions of new retirees about to draw on Social Security. The last of the Baby Boomers was born in 1964.

And we have been planning for the impact of this generation on Social Security for a long time. Congress has enacted ten significant Social Security bills in the last 60 years. As Nancy Altman has pointed out, "every enactment has taken into account the Baby Boom, and each has left the program in long-run actuarial balance."

In fact, the projected deficit of Social Security beginning in 2037 is really not a result of the Baby Boomers. Forward-thinking Social Security Administration actuaries had already accounted for them. Instead, changes in the projected deficit have more to do with factors such as economic and wage growth, productivity and disability rates.

But these important parts of the story are usually left out. Instead, the purveyors of fear want you to believe that the Baby Boomers are retiring on the backs of their children and grandchildren. If you buy this premise, then they pull out their frightening statistics showing a declining number of contributors supporting a rising number of beneficiaries of Social Security to "prove" that the program is unsustainable.

These utter distortions, however, are nothing new. My grandfather had to contend with them. In the 1936 presidential campaign, the Republican nominee, Alf Landon, labeled Social Security a "hoax." In dismissing Social Security as "unworkable," the GOP platform of that year stated that Social Security would be unable to pay benefits to two-thirds of retirees. My grandfather then, would not be surprised by the fear mongering of today. Indeed, Social Security's critics have been casting the same aspersions on the program for 75 years.

The interesting thing about all of these dire warnings of Social Security's demise is just how exaggerated they have been. Prognosticators of Social Security's impending doom are the political equivalent of Chicken Little and the falling sky. These chicken littles have created the mythology of fear surrounding Social Security. This fear has seeped into our collective conscience. Polls suggest that a majority of Americans do not expect to receive Social Security benefits when they retire.

Now let's take a true measure of where we are. Social Security has not only been the most effective government program, it has been the most responsible government program. Social Security costs are funded out of its own dedicated revenue stream. It does not and cannot borrow money to finance its operations. There is no deficit financing. Social Security is the epitome of Yankee frugality. It could not be better managed. Social security returns more than 99 cents to beneficiaries on every dollar collected. I dare you to find a private retirement plan that can claim that.

By the end of calendar year 2009, the Social Security Trust Fund had a *positive* balance of \$2.54 trillion. Let me repeat: a *2.54 trillion dollar surplus*. *By some estimates, in 2010 that number grew to 2.6 trillion dollars*. It is estimated that Social Security revenues (including interest on the Trust Fund) will continue to exceed expenditures through 2024. As a result of interest earned on the Trust Fund balances, the Trust Fund surplus will continue to expand to an approximate \$4.3 trillion in 2023. After that year, it is projected that the balance in the Social Security Trust Fund will begin to decline. Still, reserves

will be sufficient to pay full benefits through the year 2037. After 2037, Social Security would still be able to pay for 76 percent of benefits.

Now since when is news that a program is completely solvent for 27 years bad news? Even in year 28 and thereafter it could still fund 3/4 of anticipated benefits. This is decidedly NOT a program that is broke, going broke, or won't be there when current contributors retire. In fact, this is quite a remarkable achievement.

I think if Americans really understood its true financial picture, those poll numbers suggesting people are not counting on Social Security would be reversed. Doubt would give way to confidence, fear to security.

The point is we don't have to make radical changes to the program to keep it working for future generations of Americans. That would be like overhauling a car engine when all we need to do is change the oil. We don't need to scrap a secure program of social insurance for a risky individual self-help scheme, as the slick salesmen of privatization keep trying to convince us.

What are the policy equivalents of oil changes that will keep the program running? There are a range of options, which alone or in combination can keep Social Security completely solvent almost into the next century. For example, increasing employee and employer contribution rates by 1.1 percent - from the current 6.2 percent to 7.3 percent - would eliminate the *entire* projected shortfall (i.e., provide 100 percent of benefits after the year 2037 through 2085).

We could eliminate the cap on wages subject to Social Security contributions. In 2010, only earnings up to \$106,800 are subject to FICA. In creating the cap, Congress intended to cover 90 percent of the aggregate wages of all workers. Today, because wages have been increasing faster than the cap - especially for the top five percent of wage earners - FICA is assessed on only 83 percent of aggregate wages. If we eliminated the cap, even if we counted all the increased earnings toward benefits, we would eliminate an estimated

95 percent of the shortfall. And, this change would impact only the top six percent of wage earners in this country.

We might also consider expanding the base of workers covered by Social Security. Almost all workers pay into the system, with the exception of about one-quarter of state and municipal government employees who are covered by alternative pension systems. In my home state of Massachusetts, for instance, almost 95 percent of state and local government workers do not pay into Social Security. If we extended Social Security to all newly-hired state and local employees over the next five years, the Special Committee on Aging estimates we would eliminate almost 10 percent of the projected deficit, while also eliminating another burden on state and local governments.

Former Social Security Commissioner Robert Ball – whose reasoned voice is one I dearly miss – and Nancy Altman have developed a plan that would keep Social Security running for at least another 3/4 of a century without cutting any benefits and not increasing the FICA rate for approximately 19 out of 20 American workers. Their plan would gradually raise the cap to cover 90 percent of aggregate wages, as Congress intended. Again, this change would affect only a small proportion of the American public, and if phased in over the next 20 to 30 years, would have no discernible financial impact on them.

Second, Ball-Altman would retain a residual estate tax at 2009 levels and dedicate those revenues to the Social Security system. The estate tax would affect only individuals with estates of more than \$3.5 million. Finally, they would allow Social Security gradually to invest some of its Trust Fund assets into equities to earn somewhat higher returns, just as other public and private pension plans do. While the private equity markets pose higher risks, the risk will not be borne by individuals (as in the privatization schemes). Since Social Security will be around for some time, the risks are mitigated by being spread over many more years.

I am not here to advocate for one solution or the other. What I am here to say is that there are many smart people who have figured out how we can make modest changes to

Social Security that will keep benefits flowing to millions of American families for decades to come.

There are some ideas which we should oppose. First, we should absolutely oppose any cut in payment levels. Social Security pays only modest amounts to begin with. The average benefit check is around \$1,100. Cutting benefits would expose millions of Americans to financial distress – especially the 1/3 of elderly retirees who depend on Social Security for 90 percent or more of their income.

Second, we should not contemplate raising the retirement age at which workers can collect benefits, as many are proposing, unless we revamp the disability system under Social Security. Any change must account for occupational differences and requires more nuanced, analytical judgments about which people can reasonably be expected to work to a later age before collecting.

Without revamping the disability system to improve its efficiency as well as its scope, raising the eligibility age could create unacceptable hardship for whole groups of workers. Any reform must meet the twin demands of fiscal savings and equity.

The United States does not have a Social Security crisis. It never did. What we do have is the politics of fear. If we let our fears rule our judgment we will undo the greatest government program in our history, one that has eliminated poverty for millions of Americans and supported millions of families in times of need.

It is time to stop playing politics with Social Security. It is time to stop playing politics with the retirements of American workers. It is time to stop playing politics with the disability benefits millions of children and families rely on.

My grandfather led this nation through some of its darkest moments, the Great Depression and World War II – periods in our history when the characteristic courage of

Americans was most tested. He called on us to rise above our fears. America answered his call.

His generation and the generations that followed have built the most prosperous, the most powerful and the most generous nation in human history.

Social Security embodies my grandfather's determination to free us from fear by securing the American people against some of the "hazards and vicissitudes of life."