

OFFICIAL TRANSCRIPT

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UNITED STATES SENATE

SOCIAL SECURITY FINANCING OPTIONS

EXECUTIVE SESSION

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SOCIAL SECURITY FINANCING OPTIONS

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WEDNESDAY, SEPTEMBER 23, 1981

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United States Senate,
Committee on Finance
Washington, D. C.

8 The committee met, pursuant to call, at 2:40 p.m., in
9 room 2221, Dirksen Senate Office Building, Hon. Robert J.
10 Dole (chairman) presiding.

11 Present. Senators Dole, Packwood, Chafee, Danforth,
12 Heinz, Wallop, Durenberger, Armstrong, Symms, Grassley,
13 Long, Byrd, Bentsen, Matsunaga, Moynihan, Baucus, Boren,
14 Bradley, and Mitchell.

15 The Chairman. I know there is a bill on the floor, but
16 I hope that we might have some time before the vote.

17 I know there is a great deal of interest in the subject
18 matter that we are here to discuss today. I have asked, and
19 they have been kind enough to come on very short notice, Bob
20 Myers, the Deputy Commissioner for Social Security, who has
21 a very great interest in this, Jack Svahn, the Commissioner,
22 and Dr. Rivlin from CBO. Our own staff, and also Mark
23 McConaghy are here to answer any questions that are asked.

24 It occurs to me that there are a lot of questions that
25 maybe have not been addressed because the matter has become

1 so criticized. I don't know what may come of this session,
2 but I would hope that you would have the opportunity to ask
3 the correct questions to the panel, in the event we have
4 questions.

5 I have discussed this with Senator Long, Senator
6 Moynihan, and Senator Armstrong, the chairman of the Social
7 Security Subcommittee. We have had meetings. We have met
8 briefly yesterday with Congressman Pickel. We had a chance
9 by telephone today to visit with the Speaker, and also
10 Chairman Rostenkowski.

11 I think it is fair to say that there is a great deal of
12 interest in the subject matter, although there may be some
13 differences of opinion on what we should do.

14 Up until the last several weeks, when the new politics
15 of the social security surfaced, there was widespread
16 agreement that the solvency of the system was in serious
17 jeopardy. Under any major set of economic projections, the
18 old-age and survivors insurance trust fund, the one that
19 pays 75 percent of all benefits, will be insolvent within
20 the next two years, in fact I think it is to come sometime
21 next year. Having paid out more than it took in over the
22 last six years, the fund is expected to have a deficit on
23 the order of \$60 billion in the next five years alone.

24 Interfund borrowing would certainly improve the
25 situation, but it would not fundamentally deal with the fact

1 that the system's income is not certain to meet benefit
2 costs throughout the decade. Under intermediate
3 assumptions, \$30 billion would be needed by 1990 to ensure
4 the barest level of solvency, and nearly \$80 billion would
5 be required to restore current levels of reserves.

6 I just suggest that we look down the road in 1981
7 dollars, we are going to spend about \$79 billion more per
8 year in the next 75 years, or about \$6 trillion in that
9 period.

10 I believe, based on the hearings that Senator Armstrong
11 held, and what others of us have done on our own, that most
12 responsible Americans know that we have a serious problem.
13 We are frustrated, obviously, by the sensitivity of it. It
14 is very difficult to deal with.

15 In 1977, as everyone know, this committee acted
16 properly, we imposed tax increases for yet to come. We were
17 told then by the experts that that would take us into the
18 year 2030. In 1972, we dramatically increased benefits, and
19 we were told that that would not cause any problems. We
20 have increased taxes up to 1980 as a result of the 1977 Act
21 by \$480 billion, the largest tax increase in the history of
22 the country.

23 I have read the gloom and doom, and the fact that the
24 Congress may not do anything, but at least we ought to look
25 at how serious the problem is, and look at some of the

1 options in my view before any final decision is made. If
2 all else fails, we will probably adopt the painless,
3 unproductive, and cosmetic approach of interfund borrowing,
4 more studies, a lot of speeches, and let the next Congress
5 worry about it. I hope that is not the final answer, but if
6 I read what I read correctly, there is at least that
7 possibility.

8 Others may have statements they wish to make. If not,
9 we would move directly to into of those who are on the
10 panel, and maybe have our own staff take a look at some of
11 the options, options I have discussed, I might add, with
12 Senator Long and with the Chairman of the Ways and Means
13 Committee, Dan Rostenkowski, that are not as biting as some
14 the Administration sent us, I might add, that are modest in
15 their nature, but that do add over the next five years some
16 \$25 to \$30 billion to the trust fund.

17 Senator Long.

18 Senator Long. I will pass for the time being, Mr.
19 Chairman. I think all the senators will make their views
20 clear as we go along.

21 The Chairman. Does anybody else want to say anything
22 at this point?

23 Senator Armstrong.

24 Senator Armstrong. Mr. Chairman, I share everything
25 that you have said, and would only emphasize that it seems

1 to me extraordinarily important that we address the social
2 security issue in long range terms because it is evident
3 from the hearings that have already been held that the
4 social security trust fund is over-promised.

5 There is, and I think the testimony today will confirm
6 that, \$1.5 trillion deficit in that fund, and at some point
7 in time the recipients, not just the 36 million recipients
8 now depending on social security but future recipients as
9 well, will not only be inconvenienced but are going to find
10 their whole lifestyle and financial arrangements on which
11 they depend held hostage if we are not responsible in the
12 way we handle this now.

13 So I certainly share your feeling that we ought to take
14 a broad gauge, long-range, bipartisan, bicameral approach to
15 this problem, and the worst thing we could do would be to
16 simply take the painless easy way out by interfund
17 borrowing, restoring the minimum benefit, and perhaps some
18 other cosmetic things.

19 At the same time, let me observe that I think it would
20 be pointless, and even worse than doing nothing, to try to
21 go forward with a bill that contained substantial elements
22 of reform unless we are able to truly achieve that kind of a
23 bipartisan compromise. If we can't do that, if we have to
24 take a social security bill to the floor in a highly
25 partisan atmosphere, then we not only would expose the

1 proponents of such legislation to a lot of controversy, more
2 important we would set the long term cause of basic reform
3 of the system and assuring soundness of the system back by
4 several notches.

5 I would be hopeful that out of this afternoon's
6 discussion, and what will follow, will emerge a consensus to
7 really save the system.

8 For my own part, and I would like to just close on this
9 thought, there aren't very many basic principles which I
10 start from. I want to save the system. I am opposed to a
11 tax increase for this purpose, and I don't favor general
12 fund financing. But beyond that, I am aware of two dozen
13 proposals, and they are all negotiable, and any combination
14 of such proposals that will in fact save the system without
15 a payroll tax increase, and without general fund financing,
16 is acceptable to me.

17 I would be hopeful that we could go around the table,
18 and then take up with our colleagues in the House all of
19 these proposals, and find some combination of them that will
20 be broadly acceptable.

21 The Chairman. I might say, before I recognize others,
22 we have members of the Treasury here, too, because I
23 understand in the resolution adopted yesterday in the
24 Democratic Caucus, the so-called Proxmire amendment about
25 investment of the funds was incorporated in that

1 resolution. They are here in case somebody wants to ask
2 questions about that -- does it mean more money, or could it
3 mean less.

4 Senator Chafee.

5 Senator Chafee. Mr. Chairman, speaking for myself, I
6 suspect perhaps others agree, I just want to make my
7 position clear on this, I am approaching this consideration
8 solely for the purpose of preserving the fund. Any
9 discussions that we have here today as far as I am concerned
10 have nothing to do with Federal general revenue deficits.

11 This is a matter that solely deals with the
12 preservation of the social security fund, so it will be
13 there to provide benefits for those currently receiving
14 benefits, and those who anticipate receiving benefits in the
15 future. This has nothing to do with any 1983, 1985,
16 19--anything, Federal deficit.

17 Senator Moynihan. Mr. Chairman.

18 The Chairman. Senator Moynihan.

19 Senator Moynihan. Mr. Chairman, may I simply join with
20 Senator Chafee in that matter, and say that we have always
21 worked together in this committee on these issues. If there
22 was a division across the aisle this spring, it was a
23 feeling that proposals were being put forth to reduce social
24 security benefits that did not relate to the integrity of
25 the social security funds, but were designed to offset

1 deficits elsewhere in the budget. I don't assert that this
2 was so, but it certainly was felt strongly on our side.

3 If we commence these hearings with the understanding
4 that what we do, we do with respect to the social security
5 system itself, and for the purpose of maintaining its
6 stability and integrity, and without regard to any other
7 external purposes, I think we will proceed to a successful
8 conclusion. I hope we do.

9 The Chairman. I certainly share that view, and have
10 from the start. I appreciate the indication that unless we
11 can get some bipartisan support, I just know very candidly
12 that we are not going to get anything done. It is not going
13 to happen.

14 I am not trying to push anybody into the buzz-saw. I
15 have learned a great deal from Senator Long, and if I
16 learned anything it is that if we keep working at the
17 problem, we can generally come up with a consensus, if not,
18 we back away from it, and the problem is still there.

19 Senator Mitchell. Mr. Chairman.

20 The Chairman. Senator Mitchell.

21 Senator Mitchell. Mr. Chairman, I would just like to
22 say, lest silence be deemed acquiescence to some of the
23 statements that have been made regarding the present
24 condition of the fund. Ms. Rivlin is here, of course, but
25 we have the CBO projections which indicate that in this

1 decade, the start of the year balance as a percentage of
2 outlays will not at any time fall below 17.2 percent.

3 I certainly share the view expressed by Senator Chafee
4 and Senator Moynihan. I think one of the most disturbing
5 aspects of what has occurred in recent weeks has been the
6 suggestion that the social security fund be used to balance
7 the budget in 1984. The ups and down, and starts and stops
8 on that have had the results of creating tremendous fear and
9 anxiety among millions of Americans, and no where has this
10 stopping and starting been better illustrated than just last
11 week on the front page of the Washington Post on Wednesday,
12 "Reagan Rules Out Social Security Cut to Reduce Deficit."

13 The Chairman. This was a headline, I might add.

14 Senator Mitchell. That was a headline.

15 The Chairman. He did not write the headline.

16 Senator Mitchell. The following day, the headline
17 said, "Reagan Expected to Propose Delay in Social Security
18 Rise." I think we all join and share in that feeling. It
19 is like a fellow goes into a doctor's office and he has a
20 broken arm. The doctor ought to set the arm, and not
21 operate on his brain. If the social security has a broken
22 arm, we ought to fix its arm but not operate on its brain.

23 I think that it is the principle that ought to come out
24 of here, that the statements that have been made in recent
25 months regarding the system being bankrupt and the alarm

1 created, we ought to put to rest.

2 The Chairman. We are passing out copies of your
3 testimony yesterday, Dr. Rivlin, and I have taken the
4 liberty of underlining certain portions.

5 If we don't have a problem, maybe shouldn't meet over
6 five minutes here. Maybe I should ask Bob Myers. Let's
7 assume that we do the courageous thing and have interfund
8 borrowing, how long will that keep the program afloat in our
9 estimation?

10 You have had a lot of experience, and you have served
11 under a number of people and done an outstanding job. You
12 have great credibility before everyone on this committee.
13 Let's just say we do the interfund borrowing, let's just say
14 we do that, that is quite an accomplishment, how long could
15 we keep the system according to your assumptions? Then we
16 will ask Dr. Rivlin and the Commissioner the same question.

17 Mr. Myers. Mr. Chairman, as you well know, a great
18 deal depends upon what happens in the economy in the future,
19 and nobody really knows that. I am sure Dr. Rivlin will
20 agree that nobody can predict that exactly. As I
21 understand, the CBO itself has two projections: one based on
22 sort of standard conditions, and the other one based on
23 pessimistic conditions.

24 Likewise, as you know, we in the Social Security
25 Administration have developed a number of these

1 projections. One is based on the, so-called, worst case, or
2 pessimistic economic assumptions, that would show that if
3 you combine the three trust funds by having interfund
4 borrowing, by the end of 1983 all three trust funds would
5 have reached such a low level that they can't pay benefits.
6 If economic conditions are better, if they are sort of
7 intermediate, then you could probably get by until the
8 mid-1980s. If economic conditions were extremely good, then
9 interfund borrowing might get by for many years.

10 However, it seems to me, and I speak here not just as
11 political appointee but from my professional background,
12 when you are playing with the life of 36 million
13 beneficiaries, the financing of the system should be such as
14 to assure that their benefits will be paid regardless of
15 what happens to the economic conditions. If you do that,
16 interfund borrowing will just not do the job because come
17 the end of 1983, or it could be 1984, but if something is
18 done to the minimum benefit to restore it, then surely in
19 1983 all three trust funds will reach such a low level that
20 they can't pay benefits if economic conditions are bad.

21 By economic conditions being bad, I don't mean a 1933
22 depression or anything, but I mean when our worst case is
23 very parallel to what has happened in the last five years.
24 We certainly think, and we all hope that economic conditions
25 will be better than that, but it is not unreasonable to

1 think that that might continue, and certainly it is a
2 reasonable basis to be sure that you are going to pay the
3 benefits to make your assumptions on a pessimistic or worst
4 case basis.

5 In 1977, we didn't do that, and I think there was a
6 reason for that. In 1977, the trust fund balances were
7 fairly sizable, so you could take a chance that intermediate
8 economic assumptions would take you through. As it turned
9 out, they didn't, but at least then we had the funds to rely
10 on. Now, the balances in the fund are so low that we can't
11 count on that getting us by more than a couple of years at
12 the most.

13 The Chairman. What are the balances in the fund?

14 Mr. Myers. As of the end of 1981, in all three funds
15 combined there was about \$41 billion.

16 The Chairman. At the end of 1981?

17 Mr. Myers. Yes, and that is the amount that has been
18 decreasing. It was higher than that back in the '70s. It
19 has remained level in '80 to '81 at about \$40 to \$41
20 billion. But under worst case economic assumptions, or
21 pessimistic economic assumptions, that balance will melt
22 very rapidly.

23 When I say that in 1977 the Social Security
24 Administration estimates showed that things would be all
25 right for the next few years, it was the same way, too, with

1 the estimates made by the CBO. They made estimates that
2 showed that under the law that was passed in 1977, the trust
3 fund balances would grow steadily over the next six years.
4 Nobody foresaw those economic conditions, and now I don't
5 think anybody can be absolutely certain that we are going to
6 have intermediate or favorable economic conditions in the
7 next five years.

8 I think it would be very imprudent to make any
9 financing arrangements for the social security system on the
10 basis of intermediate conditions. I think we must be
11 prudent and take reasonably bad, reasonably pessimistic
12 economic assumptions of what might happen, so that we can
13 assure that benefits will be paid.

14 The Chairman. Dr. Rivlin, do you have any disagreement
15 with what Mr. Myers had indicated?

16 Ms. Rivlin. No, basically I don't. I don't think the
17 basic facts are really in dispute, Mr. Chairman. The
18 outlook for the economy is very uncertain, and anybody who
19 has to make a ten-year projection is doing a very difficult
20 thing, indeed, two years is bad enough.

21 As Mr. Myers pointed out, the one thing we do know for
22 sure is that the balances in the fund are very sensitive to
23 economic conditions. We have lived through a period in
24 history that proved that as nothing before. In 1977, we
25 were all reasonably satisfied that we had taken care of the

1 problem, and it turned out that the economic projections
2 were too optimistic, inflation was higher than anybody
3 thought it would, and more important real wages grew at a
4 lower rate.

5 We were asked to make some projections of what the fund
6 balances would be on a couple of assumptions. We did two
7 things. We took our basic forecast for the short-run, which
8 is a fairly optimistic forecast as is the Administration's.
9 We are not quite as optimistic as the Administration about
10 the short-run, but we do see strong growth probably resuming
11 in 1982 and through 1984.

12 We ran out for the rest of the decade a set of
13 assumptions consistent with that view, which is our current
14 view of the situation that growth will be reasonably good
15 and that inflation will come down.

16 We also looked at a somewhat more pessimistic scenario,
17 which one would get by assuming that tight money does not
18 allow as much growth as most people are hoping, that growth
19 rates in the near term instead of being 4 percent for '82 as
20 assumed in the basic forecast would be more like 3, and 2 in
21 '83. We ran out that set of assumptions through the end of
22 the decade, the basically slower growth in the near terms.
23 Then we looked at what the fund balances would be on those
24 two sets of assumptions.

25 On our baseline set of assumptions, it would be

1 possible to make the payments that are necessary for the
2 combined trust funds through the end of the decade, but with
3 very little margin for error. On the pessimistic set of
4 assumptions, it would not be possible. You would have to
5 take some action before the start of 1985, probably in
6 1984.

7 So I don't think it is a matter on which the experts
8 differ. It is unfortunately the kind of problem with which
9 we are all too familiar. You have to decide what you think
10 is likely to happen, and how much margin for error you would
11 like to leave.

12 The Chairman. What about the Commissioner?

13 Mr. Svahn. Mr. Chairman, as might be expected, I
14 pretty well agree with Bob Myers' assessment of the
15 situation. I would just add one thing.

16 I think, and Dr. Rivlin has emphasized the point, that
17 the trust balances are extremely sensitive to the economy
18 and economic conditions. We have watched over the past ten
19 years those trust fund balances deplete themselves
20 continuously, and they are still going down.

21 I would urge, I would make a plea, that we take the
22 politics out of the issue, if that is at all possible, and
23 that we look at the trust fund, we look at the type of
24 margin that we need, so that we are not continuously skating
25 along reopening the issue of social security financing, and

1 we turn those balances around and build them again.

2 The Chairman. Senator Packwood.

3 Senator Packwood. Let me ask one question in layman's
4 language if I can.

5 All three of you assumed, let's say, what a reasonably
6 prudent person would assume to be economic forecasts. Are
7 you telling us that if we do not change the law that
8 determines who is eligible for benefits, or for what
9 benefits they are eligible, the present tax structure will
10 not support the present benefit structure.

11 Mr. Svahn. Is that question directed at me, Senator?

12 Senator Packwood. Yes.

13 Mr. Svahn. I think that that is what we are saying.

14 The present tax structure with the projected revenues, and
15 again it is based on sets of economic assumptions but I
16 don't think that we are that far off.

17 Senator Packwood. So either raise the taxes, or change
18 the benefits?

19 Mr. Svahn. That is correct.

20 Senator Bradley. Is that the view of the other two
21 people on the panel?

22 Mr. Myers. I certainly agree.

23 Ms. Rivlin. I think you have to distinguish which fund
24 you are talking about, first. There is no dispute that for
25 old age and survivors something has to be done quickly,

1 before next year.

2 The Chairman. You are talking about the combined
3 funds?

4 Ms. Rivlin. If you are talking about the combined
5 funds, then I think there is a question of whether you want
6 to trust that things will go well, or whether you want to
7 take action sooner to protect against the possibility that
8 they may not.

9 The Chairman. So that we are not under any illusion
10 here, what we have done in some material we have handed out
11 to the committee, there are a number of proposals that have
12 been suggested, including some excise tax changes, I suggest
13 that if those changes are made, maybe it ought to go into
14 the general revenue, otherwise it would be using general
15 revenue funds.

16 Just to make it perfectly clear, a term that used to be
17 used around here, we are not trying to balance the budget
18 with changes in this system, I think everybody understands
19 that in the Administration, is that true?

20 Mr. Svahn. Mr. Chairman, there is no attempt, and
21 there has been no attempt to balance the budget with social
22 security.

23 The Chairman. They are trying to preserve the system?

24 Mr. Svahn. That is the only thing. I have been in
25 every meeting of any consequence that this Administration

1 has had on social security financing, and at no time did we
2 talk about the budget. We were talking about the trust
3 funds, the impact on the trust funds, and how to build
4 reserves in the trust funds and be able to pay benefits.

5 I know there are people who have accused us of trying
6 to balance the budget with social security. Secretary
7 Schweiker feels very strongly that what you are talking
8 about, to make that argument is specious, and you are
9 talking about an accounting gimmick. You don't spend social
10 security dollars on financing other programs.

11 The Chairman. To put it another way, I think maybe
12 some justification, maybe if not balancing the budget, but
13 maybe over-financing the system.

14 Senator Moynihan. Mr. Chairman, we are not going to
15 get very far with remarks such as the Commissioner has just
16 made. They came in in March with a proposal that was
17 without precedent. A week after the Director of the Office
18 of Management and Budget said, for the near term nothing
19 need be done save interfund transfers, they came along with
20 a \$200 billion proposal which was rejected by the Senate 96
21 to nothing.

22 The disproportion between what the Administration
23 called for when it began to see the deficits looming and the
24 difficulties of the near-term of this program could only
25 lead to one of two conclusions: either you didn't know what

1 you were doing, or you were trying to find money to offset
2 the deficit.

3 Senator Mitchell, would you read that headline from the
4 Washington Post of just a few days ago?

5 The Chairman. Do they quote the President in the
6 headline?

7 Senator Mitchell. I could read the whole story, if you
8 would like.

9 The Chairman. I read it, it is very interesting.

10 (General laughter.)

11 Senator Mitchell. I would just like to say that I want
12 to make sure I heard what you said. Did you say that at no
13 time in any discussions in the Administration did anybody
14 relate reductions in social security to the budget deficit
15 looming in 1984?

16 Mr. Svahn. In putting together the package of
17 proposals that Senator Moynihan was making reference to, the
18 only consideration was the impact on the trust fund. No
19 consideration was given toward the budget deficit, or toward
20 balancing the budget with social security dollars, that is
21 correct.

22 Senator Mitchell. What about the reductions achieved
23 through delay of cost of living adjustment in 1982?

24 Mr. Svahn. The delay in cost of living adjustment, I
25 might also add that that same newspaper had that as a new

1 proposal, was not a new proposal. It was contained in the
2 original package of proposals that were released in May. It
3 was nothing new.

4 It was a proposal that we put in there back in May, and
5 made that proposal. It was not something that was put
6 together in order to balance the budget.

7 Senator Mitchell. So everybody who has thought, which
8 led even Senator Chafee here to disclaim any relationship --
9 Senator Chafee. Let's not say, even Senator Chafee.

10 (General laughter.)

11 Senator Long. -- including Senator Chafee, which led
12 Senator Baker, the Republican Majority Leader, and Senator
13 Domenici, the Chairman of the Budget Committee, to discuss
14 it in those terms, you are saying they are wrong, they did
15 not know what they were talking about, the Administration
16 never had that in mind?

17 Mr. Svahn. I certainly would never say that a senator
18 is wrong, Senator.

19 The Chairman. Senators are wrong from time to time.

20 Senator Chafee. Mr. Chairman, we can spend all day
21 plowing the ground. We have very distinguished witnesses
22 here. We have a very serious problem. I would like to get
23 on and hear from them, and not go plowing old ground of who
24 said what, when, and what some headline said in the
25 newspaper.

1 The Chairman. The point was, I did want to make
2 certain that whatever may have been said in the past, I
3 think we are in agreement, at least as far as I know all the
4 Senate is in agreement, that it is not the purpose. I think
5 there has been some indication of that, and if in fact that
6 were the case it was not the intent of anybody on this
7 committee, let's put it that way, and I think that vote
8 indicated that.

9 Senator Bradley. Mr. Chairman.

10 The Chairman. Senator Bradley.

11 Senator Bradley. Mr. Chairman, I would like to follow
12 up with Mr. Svahn, and ask him how much of the May proposals
13 does the Administration still advocate? Do you still
14 advocate postponement of the COLA increases?

15 Mr. Svahn. Senator, the May proposals, and Secretary
16 Schweiker has testified before this committee, were a set of
17 proposals that were developed as an Administration package,
18 which could be used as a starting position for discussions
19 on the House side about social security financing.

20 When those proposals came out, there was absolutely no
21 intention to say, "This is our package, take it or leave
22 it." We were ready to discuss and ready to negotiate, and
23 to talk about ways to solve this social security funding
24 crisis.

25 If I could just add to my last statement, if there were

1 any question about balancing the budget with social
2 security, speaking for myself, I would not be sitting here,
3 and I don't think that Mr. Myers would be sitting here
4 either.

5 Senator Bradley. But you have retracted your earlier
6 proposal to cut early retiree benefits; is that true?

7 Mr. Svahn. No, that is not true.

8 Senator Bradley. That is what Secretary Schweiker said
9 today before the Congress. He said that there would be no
10 attempt to cut early retiree benefits unless it was phased
11 in over a very long period of time.

12 Mr. Svahn. But that is not a retraction, it is a
13 modification.

14 Senator Bradley. Fine, just so you are not going to
15 cut early retiree benefits next year.

16 Mr. Svahn. I feel fairly confident that it will not
17 happen, Senator.

18 The Chairman. We can assure you of that.

19 Senator Wallop.

20 Senator Wallop. Mr. Chairman, I think it is only fair
21 to say, with regard to that record, that those proposals
22 were drafted after the request from the House Committee that
23 something be proposed to take care of the problems that
24 everybody at that time agreed existed in the social security
25 system.

1 Mr. Svahn. That is correct.

2 Senator Wallop. They were not some initiative that
3 came out of the sky on behalf of the Administration. They
4 were done at the request of the House.

5 The Chairman. Senator Armstrong.

6 Senator Armstrong. Mr. Chairman, the nub of the
7 problem is what is going to happen in the future. At the
8 risk of summarizing what has recently been stated, if I
9 understand the Commissioner and Mr. Myers, the Deputy
10 Commissioner, they are convinced that unless we change
11 benefits, or the tax structure, that the fund is not going
12 to be able to meet its obligations. Dr. Rivlin says that it
13 is possible, under slightly more optimistic economic
14 assumptions, that in fact the trust fund could barely meet
15 its obligations. But we all understand that the future is
16 not something that we know.

17 It seems to me, Mr. Chairman, instructive to look at
18 the past, therefore, and my reading of the past decade is
19 that there is very little real chance that Congress will
20 adopt an unduly pessimistic view of the social security
21 trust fund.

22 I put in the record a few days ago, and I will furnish
23 to every member of the committee, a summary prepared by the
24 actuaries of the Social Security Administration showing the
25 early predictions year by year of the trustees, of the

1 future condition of the trust funds, and a ten-year record
2 of how those predications turned out.

3 I don't happen to have that document in front of me,
4 but I would like to ask Mr. Myers to talk to that point
5 because it is my recollection that what this material showed
6 was that rather consistently we have been more optimistic
7 than the actual performance of the trust funds warranted.
8 It would seem to me that that might be a guide to evaluation
9 of the present condition of the fund.

10 Mr. Myers. Senator Armstrong, you are quite correct
11 that certainly during the '70, with the type of economic
12 conditions that developed, the estimates always tended to be
13 on the optimistic side. It was not that they were
14 intentionally that way. The actuaries made the best
15 estimates that they could, they were not biased by any
16 political considerations, but the way events turned out, the
17 economic conditions always turned out to be worse than had
18 been assumed, and the cost of the program rose steadily.

19 The same was true, as I indicated previously, in 1977.
20 The estimates then were made on what seemed to be reasonable
21 economic projections that wages would rise by about 1.5
22 percent or so more per year than prices, and this had been a
23 long-time trend. But then, as you know, in 1979, 1980, and
24 1981, the reverse occurred, and it was catastrophic.

25 It wasn't just that the Social Security

1 Administration's estimates were that way, the CBO also in
2 early 1976 made estimates like that.

3 So it seems to me that it is only prudent, now that we
4 are really driving so near the edge of the road, that we
5 look at really pessimistic economic assumptions, and develop
6 a financing structure that will be sound on that basis.
7 Back in 1977 we could take a chance, perhaps, in hindsight,
8 of course, we shouldn't have. But back in 1977 we had a
9 quite sizable fund, now our funds, even including hospital
10 insurance, are at a relatively low level.

11 I think, too, when you consider hospital insurance
12 funds, that the hospital insurance system come six or seven
13 years from now is estimated to have difficulties of its
14 own. So that if you borrow from it, and then you can't
15 repay, then you have a double difficulty. Both the cash
16 benefits program and the hospital insurance program will
17 have trouble.

18 Therefore, I would strongly urge the committee and the
19 Congress to be prudent about this, and get the car back near
20 the middle of the road, and don't drive on the edge of the
21 precipice.

22 It is conceivable that you could get by with interfund
23 borrowing, but I don't think that it is at all safe to count
24 on being able to do it, and then if conditions turns out
25 wrong, you are really going to be in trouble.

1 Senator Armstrong. Mr. Chairman, while Mr. Myers has
2 been speaking, a member of my staff has handed copies of the
3 material that relates statistically the last 10 years of
4 predictions versus performance.

5 I am certainly no authority on the social security
6 trust fund, and Mr. Myers is, but as an observer of the
7 Senate, I am just absolutely convinced that there is no
8 realistic change that the senators will take an unduly
9 pessimistic view of this matter. I just can't recall an
10 instance where we ever looked at a situation and opted for
11 something that did not turn out to be at least a little more
12 optimistic than the facts.

13 Mr. Chairman, one other matter. You mentioned the list
14 of options which you had priced out by staff. On the 16th
15 of July, I put in the record a list of options that was
16 somewhat more comprehensive than those that are on this
17 sheet. It included a number of proposals, none of which are
18 my own, but which have been proposed by the Advisory
19 Council, or by the National Commission, or by Congressman
20 Conable, or which were included in the tentative mark-up at
21 Congressman Pickel's committee.

22 I would just like to ask, for the benefit of all
23 members, that each of those proposals, which are not
24 incorporated on this list, also be priced out, not because I
25 necessarily favor any of them, or any combination of them,

1 but because it seems to me that when live proposals are
2 advanced, we ought to look at all the options, including
3 some which are far more comprehensive, and really much more
4 sweeping than what you have included on this list.

5 The Chairman. I would ask that that be done. I would
6 say to any other member on either side who wants us to look
7 at some proposal, this is one purpose of this exploratory
8 session. I don't have any pride of authorship in these.
9 Most of these are the Administration proposals. One or two
10 are not, but for the most part they are.

11 Senator Armstrong. I think that that is important, Mr.
12 Chairman.

13 Senator Hollings, as you know, has advocated a change
14 in the COLA formula, and at his recommendation the Senate
15 has adopted such a change, at least in principle, during the
16 consideration of the budget resolution. I think having had
17 at least that much expression of interest by the Senate, we
18 certainly ought to price that one out.

19 Congressman Pickel in his bill has included a provision
20 which would increase gradually over a long period of time, I
21 think over 36 years, the age of first retirement
22 eligibility.

23 I am told, and I don't have this before me in black and
24 white, that that one change, which is contained in the
25 Pickel bill, would eliminate approximately one half of the

1 \$1.5 trillion estimated deficit in the system. If that is
2 true, and if there is substantial support for that idea in
3 the House as there evidently is, then I would certainly want
4 to look at that.

5 I think in all there are about two dozen items on the
6 list, and I stress that I am not advocating any of them. I
7 am not courageous enough at this point to do so, but I think
8 we ought to take a look at all of these idea and find out
9 what the dollar implications really are.

10 The Chairman. Let me recognize Senator Bentsen.

11 Senator Bentsen. Mr. Chairman, let me ask about one of
12 the more palatable options that was discussed a moment ago,
13 and that is Senator Proxmire's insofar as the investment of
14 the funds themselves.

15 The Chairman. I have Roger Mehle from the Treasury
16 here.

17 Senator Bentsen. What I would like to know, I heard
18 the figure of \$41 billion as the amount at the end of the
19 fiscal year, I believe. I don't know if there are certain
20 cycles during the year when the fund is up or low, but I
21 suppose that you have such a thing. I heard some numbers
22 that the average yield was something in the vicinity of a
23 little over 8 percent, whereas in private investors and
24 federally insured securities were earning something that
25 approached 13 percent or more.

1 I know you have other problems involved there, the
2 question of liquidity, and that sort of thing, as you try to
3 make those investments.

4 Can you tell me how much the average amount of funds
5 that would be subject to investment, and if we were able to
6 get the average yield on federally insured securities what
7 it would mean for the trust fund itself. I fully understand
8 that you lose something on the general revenue side if you
9 do that.

10 The Chairman. Let me just identify Mr. Mehle, who is
11 the Assistant Secretary for Domestic Finance; Mark Stolnak,
12 Deputy Assistant Secretary for Domestic Finance; and Paul
13 Taylor, Fiscal Assistant Secretary. They are here prepared
14 to address that question.

15 Senator Bentsen. Good.

16 Mr. Mehle. The amount of investments in the trust
17 funds, of course, have been accumulated over time. As of
18 the time that new funds come in, they are invested pursuant
19 to statute in, for the most part, in treasury obligations
20 that are not marketable which have the privilege of being
21 redeemed at any time at par.

22 The yield on the securities, the incremental funds --

23 Senator Bentsen. I understand that, and that is why I
24 referred to the question of liquidity and the difference in
25 the time of maturity.

1 Mr. Mehle. I want to lay a bit of a foundation here so
2 the total picture can be understood.

3 The incremental flows of funds that come in during the
4 course of a year, a month, or whatever period, are invested
5 in treasury non-marketable which have the optional
6 redemption feature for the fund to be put back to the
7 Treasury at par.

8 The yield that those securities carry is the average
9 yield for securities issued by the U.S. Treasury in the open
10 marketplace of maturities of four years or longer. So you
11 can regard the yield as being an intermediate to long-term
12 yield, that is the one given on incremental flows of funds.
13 That right now is about 15 percent. As of today, any funds
14 that are invested will return to the trust fund 15 percent
15 or so.

16 Naturally, if the market improves, and yields go down,
17 the funds as they flow in will be less.

18 Senator Bentsen. That yield that you are talking about
19 is on current funds invested.

20 Mr. Mehle. That is right. That is on the new flow of
21 funds in today, yesterday, and so forth.

22 Senator Bentsen. Now would you tell me the average
23 yield that you have had?

24 Mr. Mehle. The average is not too much different from
25 the 8 percent.

1 Senator Bentsen. The 8 percent that I cited?

2 Mr. Mehle. That is right.

3 Mr. Taylor. Again, that includes the securities which
4 were acquired years and years ago.

5 Senator Bentsen. I understand, and that is the point I
6 am making.

7 Mr. Mehle. Now, as those are rolled off, as they will
8 be in order to meet needs of the trust funds as they come
9 due to pay beneficiaries, those securities are, if you like,
10 retired or redeemed, and they no longer are contributing to
11 the lower rate of earnings.

12 The difference, then, between the average yield on the
13 funds and the current incremental yields we can observe, is
14 about six percentage points, six or seven percentage
15 points. So if you were to multiply that by the total amount
16 of principal in the funds, you could tell how much more it
17 would be earning if they were all in that.

18 Senator Bentsen. Now can you tell me what the average
19 roll over is during the year? How much of the funds is
20 available for new investment, that is, the in flow and the
21 maturity on your current securities?

22 Mr. Mehle. The run-off, I think the other participants
23 talked about this just a few minutes ago, is about \$12
24 billion a month.

25 Senator Bentsen. Percentage-wise in a year how much

1 would it be, the total portfolio that you now hold? Would
2 25 percent of it run off in a year?

3 Mr. Mehle. I think the run off depends on the in-flow
4 versus the out-flow. Theoretically, you could have a
5 continuing growth, if you see what I mean. Right now it is
6 about static, as was discussed earlier. So if you continue
7 to receive during a period of months as much as you need to
8 pay out, you would not necessarily have any run-off, but you
9 would have a successive growth in the trust fund.

10 Therefore, the run-off in the trust fund depends upon
11 the difference in receipts and outlays which it is project
12 in the coming years will be such as to cause the securities
13 to need to be redeemed. But unless you have a run-off, you
14 will not have any redemption.

15 Senator Bentsen. I would like to stabilize that to get
16 to the answer I am trying to get from you. If you had your
17 in-flow and your out-flow flat, then what would your run-off
18 be?

19 Mr. Mehle. I think the question would be what the
20 average maturity of the existing portfolio is, and I am
21 going to try to find that out.

22 Senator Heinz. Isn't the average maturity around five
23 years, isn't that the length of these certificates?

24 Mr. Mehle. That is what I am going to find out.

25 Senator Bentsen. If you are getting a 15 percent

1 current yield on government guaranteed securities on the new
2 money, there is not that much to be gained apparently by the
3 approach that is recommended, or has been suggested.

4 Mr. Mehle. I think there is a lot to be lost by it, in
5 fact, if I understand what you are referring to as the
6 approach, and that is purchase of open market securities, or
7 the purchase of securities issued by government sponsored
8 agencies.

9 The reason that there is much to be lost by it is
10 because of this privilege that the funds have right now of
11 putting back before maturity the securities that have been
12 purchased for the fund at their face value.

13 Ordinarily, when it comes time to sell a security, if
14 it carries a coupon on it that is below the current market
15 coupon, when you sell it, you have to sell it at a
16 substantial discount from the price that was paid for it.
17 That is the kind of thing that the funds would be subjected
18 to if they were invested in open market securities.

19 Senator Bentsen. I understand. Of course, if you are
20 turning that around and reinvesting it at current rates, you
21 make it up. If you are talking about paying it out that is
22 a different point.

23 Does he have the average yield for you?

24 Mr. Mehle. It is seven years.

25 Senator Bentsen. Thank you.

1 The Chairman. Does that respond to your question?

2 Senator Rentsen. That is what I have been trying to
3 get.

4 The Chairman. I would hope that Treasury would analyze
5 that provision carefully. It has been suggested by the
6 Democratic Caucus, which means that it will be seriously
7 considered. I am certain that if there are arguments to be
8 made, you would want to have them. If there is some reason
9 that we shouldn't do that, or if there is some reason we
10 should, we ought to do it, as I see.

11 If there is anything else that you would like to
12 provide for the record, or provide to us individually that
13 would help us make a decision on this, in the event we do
14 move on whatever we move on, if we can find anything to move
15 on, and we may plain move on.

16 (General laughter.)

17 The Chairman. That would be helpful.

18 Senator Bentsen. Let me ask him one more question
19 because it comes to mind. You say you have the privilege of
20 a put, or a par.

21 Mr. Mehle. Right.

22 Senator Bentsen. Normally, you pay a price in yield
23 for that.

24 Mr. Mehle. Normally, the purchaser of a security will
25 have to accept a lower yield than the market yield for that

1 privilege. So the trust fund has an advantage to that
2 extent because it is not paying any price for that privilege
3 now.

4 The Chairman. You would recommend against that
5 provision?

6 Mr. Mehle. As I say, I consider it an important
7 advantage that the trust fund now has. I suggest that
8 causing that advantage to be removed, which one necessarily
9 does if one deals in the open market, will diminish the
10 return to the trust fund.

11 Senator Bradley. Mr. Chairman.

12 The Chairman. I think I had promised Senator Durenberg
13 I would hear from him next.

14 Senator Durenberger. Are we through with this specific
15 issue?

16 The Chairman. Do you have anything else, Lloyd, that
17 you want to follow up?

18 Senator Bentsen. Let me ask you if the investor in
19 this situation has any kind of a conflict of interest on his
20 hands insofar as the investment for the trust funds
21 themselves in trying to borrow for the Federal government?

22 Mr. Mehle. I think the reason that any possible
23 conflict is removed is because the yield in which the trust
24 fund proceeds, or the flow of trust fund in the current
25 period, the yield which those funds receive is an

1 automatically established yield, it not one that is
2 discretionary. So that the managing trustee, who is the
3 Secretary of the Treasury, might decide that he would like
4 to have a lower yield, and therefore specify some low yield
5 for the investment.

6 It is not done that way. The statute provides that the
7 yield established for new monies flowing in will be an
8 automatically established yield. Thereby, the trust fund is
9 guaranteed to fetch for incremental funds a market yield.

10 Senator Bentsen. Mr. Chairman, thank you very much.
11 It leads to more questions, but not at this point.

12 The Chairman. Roger, you will be available if we have
13 additional questions?

14 Mr. Mehle. I will. I plan to be here for the balance
15 of the meeting.

16 The Chairman. Senator Durenberger.

17 Senator Durenberger. Following on the request of the
18 Senator from Colorado for some information on various
19 proposals, I don't have a proposal but I have a need for
20 some bit of information that I think fits into the overall
21 picture, and that is, Mr. Commissioner, what the experience
22 has been relative to some of the state and local governments
23 and non-profits who have had the right to either opt in or
24 opt out of the social security system.

25 I would be curious to know, in light of the fact that

1 are options are down to making benefit calculation changes
2 versus raises taxes, we are already facing a tax increase
3 that is built into the law, what the experience has been in
4 recent months and years relative to those non-profits, some
5 large non-profits as an example, and some state and local
6 governments opting out of the system, and what information
7 you have relative to numbers of dollars involved here, and
8 what the trends have been that might be developed?

9 Mr. Svahn. I don't have any numbers with me, and I
10 will ask Bob to follow up my answer because he obviously has
11 followed it a lot longer than I have.

12 I would just say that I think there is probably a
13 relationship between the number of state, local, and
14 non-profit organizations that notify us that they are
15 interested in dropping out of the system. There is a
16 positive relationship between that number and the number of
17 companies who begin to engage in providing pension advice
18 and private pension plans, and things like that to those
19 organizations.

20 There is quite an industry in this country that visits
21 non-profit hospitals, and non-profit institutions, and local
22 and state governments, and suggest to them that perhaps
23 their private pension plans would be better than to stay
24 with social security.

25 I will ask Bob to follow up on that.

1 Mr. Myers. Senator, in the past, during the 1970s,
2 there was quite a move by state and local governments to opt
3 out. You may recall that the State of Alaska actually did
4 drop out. New York City thought about it, and then decided
5 not to.

6 By and large, as far as state and local governments are
7 concerned, the wave has sort of diminished. At the moment,
8 most of the move in this direction is in the non-profit
9 area, primarily among non-profit hospitals. The other
10 non-profits, such as colleges, churches, are not
11 particularly doing it.

12 We do have very good data on the state and locals that
13 we would be glad to submit. As far as non-profits are
14 concerned, they are handled by IRS and they did not keep
15 data on the withdrawals of the non-profit agencies because
16 there were not too many of them. It has been picking up,
17 and now there is a data collection system in place.

18 To date, although there are many that are in the
19 waiting period, not a great many non-profit hospitals have
20 actually gone out completely.

21 Senator Durenberger. Given the employment
22 characteristics of a lot of people in that particular field,
23 and at least in some areas it would be relatively easy to
24 transfer from one employer to another, do you have any
25 specific recommendations for us in that regard relative to

1 the application of social security?

2 Mr. Myers. One proposal has been made, as perhaps you
3 are aware, Senator, in Chairman Pickel's bill, providing
4 that non-profits, and state and local governments could no
5 longer opt out. This was accepted by his committee, as I
6 recall, unanimously. The Administration, although it had
7 not originally proposed this did support the provision. The
8 only controversy is whether you should make this
9 retroactive, or whether it should be as of some later date
10 to give such organizations a chance to opt out.

11 Also, as you may recall, both in the Administration
12 proposal, and in Chairman Pickels bill, there is a provision
13 to stop the windfall portion of the benefit for people who
14 opted out, whether from state or local governments, or
15 non-profit organizations and got pensions there, so that
16 their social security benefits were not unduly weighted to
17 represent only the short period of time they had been in.
18 The Administration did support that. We had a little
19 different approach than Mr. Pickel, but we believe in that
20 general principle.

21 Senator Durenberger. Thank you very much.

22 The Chairman. I am wondering if we might, in an effort
23 to make some progress, without defining progress -- I assume
24 everybody here believes that we have some problem. Is there
25 anybody here who thinks we should do absolutely nothing?

1 We have had three expert witnesses indicate in nearly
2 every case, even with interfund borrowing, we are going to
3 have a problem, and it is going to be fairly soon.

4 I guess we could do what we have done in the past, ave
5 some indication informally of how many think we ought to
6 something. Does everybody agree that we ought to do
7 something?

8 Senator Mitchell. Mr. Chairman.

9 The Chairman. Yes.

10 Senator Mitchell. Could I just ask a couple of
11 questions to put this into perspective, so that there is no
12 misunderstanding. This would be to Dr. Rivlin.

13 As I understand it, if the Administration's economic
14 projections turn out to be correct, the social security
15 trust fund balances will be sufficient to meet the
16 obligations; is that correct?

17 Ms. Rivlin. It depends on how far you run out the
18 projections.

19 Senator Mitchell. Let's take between now and 1985.

20 Senator Bradley. Also, which projections, January to
21 July.

22 Senator Mitchell. The Administration's July
23 projections.

24 Ms. Rivlin. I think that is correct, if you use the
25 Administration's projections, as far as they have run them

1 out, the ones that are the basis of the budget, with
2 interfund borrowing, you would not have a problem.

3 Senator Mitchell. If I could ask the same question
4 with respect to baseline projections of the Congressional
5 Budget Office, of which you are the Director. If the
6 projections of your office made recently turn out to be
7 correct, is it not true that the balances in the social
8 security trust funds will be sufficient for the system to
9 meet its obligations?

10 Ms. Rivlin. Yes, if those projections turn out to be
11 right, the balances would be barely sufficient.

12 Senator Mitchell. So if there are to be social
13 security balances at an insufficient level, the economy will
14 have to perform not as well as has been projected by the
15 Administration, or by the Congressional Budget Office; is
16 that not correct?

17 Ms. Rivlin. That is correct, but I think both we and
18 the Administration have emphasized that things don't always
19 turn out as well as you hope.

20 Senator Mitchell. I understand that, but when you make
21 an economic projection, that is the projection which you
22 most sincerely believe will occur in the economy, it is
23 not?

24 Ms. Rivlin. Only for the near term. I would not want
25 to make that statement about a ten year projection, or even

1 a five year projection.

2 Senator Mitchell. For how long?

3 The Chairman. Six months.

4 Senator Mitchell. You have a very responsible
5 position, and you are a responsible person, when you publish
6 an economic projection that represents your best judgment as
7 to what is going to happen. We all understand that the
8 further away the date, the less certain you can be as to
9 what will occur.

10 Ms. Rivlin. No, that is not quite right. In the near
11 term, I think for the next couple of years, I think that is
12 right. Beyond that, we don't really forecast. What we do
13 is run out a set of projections. The set of projections
14 that we have called the baseline assumes that there will
15 continue to be healthy growth through the end of the decade,
16 without a business cycle.

17 If you were to ask me, what do I think the chances of
18 that happening, a strong growth rate for ten years without a
19 business cycle, I would say that they are not very high.

20 Senator Mitchell. The point I wanted to make, Mr.
21 Chairman, is that under the existing projections of both the
22 Administration and the CBO, the trust fund balances will be
23 adequate to meet the obligations of the system.

24 The Chairman. Could I interject, they made the same
25 projections in 1977, and had they been correct, we would not

1 be here today. We would not be here until the year 2030,
2 and then we would not be here in any event. They were not
3 correct, and I think Dr. Rivlin has stated very precisely
4 that beyond a couple of years, you are just sort of running
5 out numbers. But I understand the point you are making.

6 Senator Mitchell. The point I want to make is that the
7 tenor leading so far has been that by most estimates, it
8 appears likely that the system is going to be in difficulty,
9 and we have got to do something about it. I think it is
10 certainly a possibility that we have to take into account.

11 I commend the chairman for wanting to deal with this in
12 a fair and bipartisan manner, but I think the presumption
13 really is the other way based upon the estimates of both the
14 Administration, and the CBO. That is likely not to occur,
15 and our concern ought only to be with that contingency in
16 the event it does occur.

17 The Chairman. Senator Bradley, and then Senator
18 Armstrong.

19 Senator Bradley. Mr. Chairman, I wanted to follow up
20 on what Senator Mitchell said. He asked one of the
21 questions I was going to ask.

22 I would like to know with some specifics how bad will
23 the economic performance have to be in the next two to three
24 years in order for there to be a problem? What will
25 interest rates have to be, what will the inflation rate have

1 to be, what will unemployment have to be, and how does that
2 differ from your present projection?

3 Ms. Rivlin. What we have labeled our pessimistic
4 forecast, or pessimistic projection, and I will be happy to
5 submit this table for the record, shows growth rates in
6 1982, 1983, and 1984 of 1.3 percent, 3.2 percent, and 2.2
7 percent. Those are low, moderate growth rates as opposed to
8 higher ones in the 4 percent range.

9 Senator Bradley. What was the last thing.

10 Ms. Rivlin. As opposed to higher growth rates in the 4
11 percent range.

12 The comparable numbers for our baseline, and these are
13 on a year over year basis, are 2.7, 4.1, and 4.0, and this
14 is real growth in national product. So in that sort slow
15 growth economy, you would be in trouble below a margin of
16 safety by 1985.

17 Senator Bradley. What is the difference between what
18 you predict now on inflation over the next two years, and
19 what inflation would have to be in order to create a problem
20 for the trust fund; what is what you now predict in interest
21 rates and what would they have to be in order for the trust
22 fund to have some problems?

23 Ms. Rivlin. The CPI rates that go with the two
24 projections are not actually very different. For the
25 baseline --

1 Senator Bradley. The baseline is what you are now
2 predicting?

3 Ms. Rivlin. Yes, it is consistent with our current
4 forecast. We have 7.8, 7.0, and 6.4 for 1982, 1983, 1984.
5 The pessimistic is 8.1, 7.2, and 6.2. These are not large
6 differences. The differences really come more from the
7 growth in real wages. The slower growth in the economy
8 gives you slower growth in real wages.

9 Senator Bradley. Interest rates?

10 Ms. Rivlin. The treasury bill rate for the baseline
11 1982, 1983, and 1984, 12.7, 11.8, 10.4, and for the
12 pessimistic, 14.5, 14.6, 13.6.

13 Senator Bradley. So that interest rates would have to
14 stay at 14.5 percent before the economy was in a position
15 that the trust funds would be in trouble, that is what the
16 projection says.

17 Ms. Rivlin. That is what is consistent with this
18 particular projection because the way we made it up was to
19 say, how do you get slow growth? You get slow growth
20 because the interest rates stay high. There would, of
21 course, be other ways of getting slow growth.

22 Senator Heinz. Would the Senator yield for a comment.

23 I just want to say there are two ways that we can get
24 in trouble. One is through having high interest rates and
25 high unemployment, which I think the Senator was trying to

1 drive at. The other is a little more subtle, it is by
2 having prices go up faster than wages. That is how we got
3 in trouble in the last three years, and that is a function
4 of a variety of factors, which Ms. Rivlin might want to
5 comment on, too.

6 There is more than one way that we can have problems,
7 and not just through high unemployment and high interest
8 rates.

9 The Chairman. Could I just raise one question for you,
10 and then Senator Armstrong, and then Senator Boren, Senator
11 Chafee, and Senator Danforth.

12 Mr. Myers, we have talked about when the system is
13 solvent, or safe. Is there a difference between safety and
14 solvency? We are talking about reserves, I assume, when we
15 are going to be safe through a certain time, or a solvent
16 through a certain time. Let's talk about safe.

17 I think what we are all trying to do is to make certain
18 that we are going to take care of those who are in the
19 system now, and who may be coming into the system as
20 beneficiaries. That is the only purpose that I know of that
21 we are seeking to address, and I don't think that our view
22 are that much different.

23 What is the safe level of reserves that we are talking
24 about for the security of the system?

25 Mr. Myers. Mr. Chairman, as you put it, there is a

1 considerable difference between solvency and safety.
2 Solvency means that you are just able month by month to meet
3 your benefit checks. I think to be safe the system ought to
4 have, as a minimum, two months' benefits in the fund at any
5 one time because one month you have to pay out, every third
6 of every month.

7 Senator Bradley. So you are saying that the reserve
8 should be 18 percent?

9 Mr. Myers. As a minimum, really. Desirably, over the
10 long run, they ought to be as high as 50 percent, so that if
11 you really have had economic conditions at some time, some
12 sort of a depression --

13 Senator Bradley. When was the last time that the
14 reserve was at 50 percent?

15 Mr. Myers. This was back in the mid-70s. This is the
16 only reason that we were able to weather the bad economic
17 conditions that we had in 1979 and 1980.

18 Senator Bradley. What were the assumptions of the 1977
19 tax increase of what the reserve should be?

20 Mr. Myers. There it was hoped that the reserves would
21 hold up to 50 to 75 percent, and they have not, of course,
22 they have dropped.

23 Senator Bradley. Fifty to 75 percent?

24 Mr. Myers. Of a year's out-go.

25 The Chairman. It used to be 100 percent.

1 Senator Armstrong. That is what I was going to ask.
2 Could we ask the witness, Mr. Chairman, when the first date
3 was that the reserves actually fell below the level of 100
4 percent.

5 Mr. Svahn. The trust funds had 100 percent reserve in
6 them from 1940 to 1970. In 1970 we started to drop below
7 100 percent.

8 Senator Armstrong. Then it went to 50 percent in the
9 mid-70s?

10 Mr. Myers. Yes.

11 Senator Armstrong. And we are now at what?

12 Mr. Myers. About 18 or 19 percent.

13 Senator Armstrong. Thank you, Mr. Chairman.

14 The Chairman. I only want to make that point, because
15 I think we talk about solvency, and certainly we should, but
16 I think we also need to keep in mind, if in fact we do adopt
17 the reallocation of taxes or interfund borrowing, we are
18 going to have two funds in trouble in the near future
19 instead of one, unless all these optimistic projections are
20 correct or even better.

21 Senator Armstrong.

22 Senator Armstrong. Mr. Chairman, I just want to nail
23 down as many of the facts as possible, so that those that
24 are not in issue.

25 I have been throwing around the figure of \$1.5 trillion

1 as the amount of the deficit in the social security system.
2 I would like to establish for my own peace of mind two facts
3 about that.

4 One, that is the number that the trustees of the system
5 have put forward; is that correct?

6 Mr. Myers. That is correct, Senator Armstrong. This
7 \$1.5 trillion figure represents what is called the present
8 value of the excess of benefit outgo in the next 75 years
9 over the income. In other words, if you had that \$1.5
10 trillion on hand now, it was earning interest, and it was
11 gradually depleted, with the existing tax income you would
12 just be able to meet benefit outgo.

13 Senator Armstrong. You anticipated my next question,
14 and I would like to ask you to continue that.

15 It is not the unfunded liability, which is a much
16 larger number. As I understand it, it is somewhere in
17 excess of \$4 trillion. In other words, there is \$4 trillion
18 in unfunded liability, but if you had \$1.5 trillion on hand
19 earning interest, it would even out with the projected
20 benefits, and the projected income of the fund according to
21 the trustees.

22 Mr. Myers. That is correct according to the
23 intermediate estimate. The higher figure which you gave,
24 which is actually, as I recall, between \$5 and \$6 trillion,
25 is the amount of money you would need if there were no more

1 new entrants into the system. In other words, just for the
2 existing group of beneficiaries and active workers, counting
3 only the taxes that they would pay in the future, and
4 benefits that would have to be paid, you need to have
5 roughly \$5.5 trillion.

6 Senator Armstrong. Mr. Myers, thank you.

7 I want to ask another question that I should have asked
8 at the time we were talking about these various projections
9 of the future, and at point at which I asked for your view
10 of past trustee projections. I think at least you and I
11 agreed that in the past the projections have tended rather
12 consistently to be more optimistic than the final
13 performance of the trust funds.

14 But in that connection, I would like to direct the
15 attention of the committee to the five levels of projections
16 for the future that are contained in this year's trustees
17 report. As I understand it, there is a best case, and a
18 worst case, and there are several in-between, different
19 projections of the economy.

20 Somewhere I have gained the impression that the most
21 pessimistic of these five projections of the future is
22 actually supposing or projecting a performance in the
23 economy which is better than that which has obtained in
24 recent years.

25 In other words, of all of these projections, the worst

1 of them is better than the recent past; is that true?

2 Mr. Myers. This is correct as far as the short range
3 assumptions are concerned. Our so-called worst case
4 assumption, if you just look at the critical element of the
5 real wage growth, it is more optimistic than what has
6 occurred in the past five years. Of course, we would never
7 expect that over the next 75 years, this would continue.

8 Senator Armstrong. I understand that, but I was
9 talking about the near-term problem, since the heart of the
10 difference of opinion here, or one of the differences of
11 opinion, is how quick the crunch is going to come, and
12 whether or not we are really going to go off the road, to
13 use your metaphore, or whether we are going to somehow steer
14 toward the edge, but not quite go over the edge.

15 In that regard, Mr. Chairman, I do have two questions,
16 or at least one for Dr. Rivlin.

17 I am looking, Dr. Rivlin, at your statement, at table
18 No. 2. In that table, you relate the CBO's projections of
19 the percentage of outlays which would be on hand in the
20 OASDHI fund at different points, at the start of each year.

21 My question first is this, you projected 27 percent, 24
22 percent, 21 percent, 19 percent, 17.2 percent is the low
23 point in your projection. In your opinion, what is a safe
24 level, what is a prudent level; have you reached any
25 conclusion as to what is a reasonable?

1 We heard a moment ago that up until a decade ago, for
2 practically the whole history of the trust fund it was at
3 100 percent, and then it has gradually gone down to 50
4 percent, and now it is at 18 percent. According to your
5 numbers, it might go as low as 17.2 percent at the start of
6 Fiscal Year 1985.

7 What is the lowest level that you would recommend that
8 we go?

9 Ms. Rivlin. I don't think that there is any single
10 answer to that. It really depends on what you want to
11 achieve. As Mr. Myers said earlier, I think, I am not sure
12 what words he used exactly to describe it, but there is the
13 level below which you would not even be able to pay out the
14 benefits month to month, and you can't let that happen in no
15 way.

16 Senator Armstrong. What level did he say that was?

17 Senator Bradley. Nine percent.

18 Ms. Rivlin. About 12 percent.

19 Mr. Myers. If you had 12 or 13 percent at the
20 beginning of the year, it is quite likely that you would
21 have trouble at some later month during that year. But in
22 any specific month, anything below 9 percent and you are
23 probably in trouble.

24 Senator Armstrong. That is exactly what I was getting
25 at. In citing the opening balances in each case, I wonder

1 if you have taken into account the possible balance during
2 the course of a year, because even if you had 17 percent at
3 the start of the year, that would imply that during some
4 months of the year you would have more than 17 percent, and
5 possibly substantially less during other months. Have you
6 looked at that question?

7 Ms. Rivlin. Yes, we have looked at that question, and
8 we have also provided the committee with both the fiscal
9 year numbers and the calendar year numbers.

10 Senator Armstrong. Do you have before you the month by
11 month figures, and what is the lowest month as contrasted
12 with the lowest year?

13 The relevance to that, Mr. Chairman, is this, even if
14 the fund is completely sound, even if it has reserves three
15 or four times what was actually necessary on the average, if
16 at any point during the course of the year it did not have
17 enough at that point, the fact that it may have had a
18 surplus in the past or might again in the future would
19 really be inconsequential, because they still would not be
20 able to send out the checks. In fact, there is a story
21 about a man who drowned while crossing a river, the average
22 depth of which was only three feet, and I am wondering if
23 that is what we are looking at in this case.

24 Ms. Rivlin. We could look at the month to month.

25 Senator Armstrong. Have you looked at the month to

1 month?

2 Ms. Rivlin. In putting them together, yes. But I
3 don't think there is a dispute between Mr. Myers and
4 myself. If I understand it, we are in agreement that so far
5 as bare minimum to enable you to make the payments goes,
6 that on the fairly optimistic scenario of either the
7 Administration or CBO, you barely squeak by.

8 The question is, do you want to be in the position of
9 barely squeaking by, or do you want to have a larger margin
10 of safety. I think that depends in part on how often you
11 want to change the benefits, or the taxes, how often you
12 want to have to make changes in the fund.

13 One approach might be to say, we would like to have
14 sufficient balances so that almost no matter what happens
15 over, say, a 10-year period, we will be all right. That
16 would be a much larger number. It would have to be a number
17 that would be in the 50 to 75 percent range at least to
18 enable to weather a recession of the type that we have had
19 in the past decade.

20 Senator Armstrong. Would you recommend that to the
21 committee?

22 Ms. Rivlin. I don't recommend, Senator, I just state
23 what I think the problem is.

24 Senator Armstrong. Very well. If you could give us
25 the month to month break out, I think that would be helpful,

1 so that we could track it to this overall figure. If you
2 would send to us when it is available, it would be very
3 helpful.

4 Mr. Myers. Senator, may I add one word?

5 Senator Armstrong. Yes, sir.

6 Mr. Myers. I think you will find that these ratios
7 tend to be a bit higher when you look at them on a fiscal
8 year basis, rather than the end of the calendar year. There
9 may be a couple of points difference.

10 Senator Armstrong. That is exactly the point I was
11 getting at. In fact, somewhere I gained the impression that
12 the data reported in here is on a calendar year basis, and
13 this data is on a fiscal year basis. I started to ask that,
14 but I thought it would be really better yet, rather than
15 looking at either calendar year end or fiscal year end, to
16 look at the month by month figures, so that we would really
17 see how close to the thin ice we are skating.

18 The Chairman. Senator Boren, and then Senator Chafee,
19 Senator Danforth, and then Senator Moynihan.

20 Senator Boren. Thank you, Mr. Chairman.

21 I notice in the staff presentation, and I think also in
22 Dr. Rivlin's testimony there was reference to it, that we
23 are not projecting that there would be substantial saving by
24 changing the indexing formula to reflect the lower of either
25 the wage index or the CPI. I know in 1979 and 1980 there

1 was very substantial divergence between the two. I thought
2 I recalled earlier discussions of projections as high as \$25
3 billion in savings over a five-year period by making that
4 kind of change.

5 Have we now changed our economic assumptions to the
6 extent that we don't think that that would bring about
7 sufficient or significant savings; or am I incorrect in
8 reading it that way?

9 Mr. Myers. Senator, if there is the indexing to the
10 lesser of wages or prices, that would serve as a sort of
11 insurance that if there was a situation like in 1980, where
12 there was a 5 percent differential, it would make a great
13 deal of difference.

14 However, in most of these projections that the CBO has,
15 there isn't that much of a negative that the differential
16 would amount to something. In our, so-called, worst case
17 assumptions, where we assume that through 1981 and 1982
18 wages don't go up nearly as rapidly as prices, you would
19 show more effect.

20 Obviously, when you take a more favorable economic
21 scenario, then it would have no effect at all. It also, of
22 course, depends on whether there is lesser of wages or
23 prices. The process is hooked up with a so-called catch-up
24 provision. If there is a catch up later when wages rise
25 ahead of prices, there is no long term effect, but over the

1 short term it would get you over some real dips in the
2 economy.

3 Senator Boren. So in terms of sort of an insurance for
4 the system, if you had the kind of divergences that we did
5 have in the last couple of years, it could have very
6 significant impact in terms of maintaining the reserves of
7 the system under those kinds of conditions; is that
8 correct?

9 Mr. Myers. Yes, Senator, that is quite true. In a
10 study that the National Commission on Social Security made,
11 if such a provision had been in effect for 1977 on, we would
12 not be in this crisis that we are now.

13 Senator Boren. If we had had that kind of provision,
14 would our reserves still be closer up to the 50 percent
15 level than they are now?

16 Mr. Myers. Yes, as I recall, they would be right up
17 close to 50 percent still. Then, of course, I think you can
18 characterize that if there is a catch-up, you can say that
19 you are still indexing by prices over the long run, so there
20 is no long term savings or costs, but over the short term
21 you are shifting the burden a little in times of very
22 unusual economic conditions.

23 Senator Boren. The Chairman, at the beginning of the
24 meeting, made reference to the figure of \$60 billion, and I
25 have seen statements made by several people in the

1 Administration saying that over a five-year period to assure
2 sufficient reserve levels, we would need to save something
3 between \$50 and \$60 billion. Does that take into account
4 the savings that the committee has already succeeded in
5 making in the budget reconciliation process, or is that \$60
6 billion on top of the \$20-plus billion that we have already
7 saved?

8 Mr. Myers. It is in addition to what has already been
9 done through the budget reconciliation.

10 Senator Boren. Thank you.

11 The Chairman. Under the intermediate assumption it is
12 \$30 billion that will be needed by 1990 to ensure the barest
13 level of solvency. On the current level of reserves, we are
14 talking about near \$80 billion, and that is in addition to
15 what we did in the reconciliation, as I understand it.

16 Senator Chafee.

17 Senator Chafee. I would like to ask Mr. Myers and Ms.
18 Rivlin if they would agree with this statement: Assume we
19 do interfund borrowing, assume that conditions are the same
20 economically as they have been in this country for the last
21 five years, under those assumptions I understand all three
22 funds will be unable to pay benefits by 1983; is that
23 correct?

24 Ms. Rivlin. I have not worked out the funds separately
25 on that exact assumption, but surely the combined balances

1 would not support the benefits.

2 Mr. Myers. Senator Chafee, I would say, not by 1983
3 but in 1983.

4 Senator Chafee. In 1983, which is two years from now.

5 Mr. Myers. That is correct, Senator.

6 Senator Chafee. If we do nothing except pass the
7 interfund borrowing, and the conditions in this country
8 remain the same, then they will not be able to pay the
9 benefits in two years; are we agreed on that?

10 There seems to be a line of questioning here that says
11 that if the CBO and the Administration's projections are
12 correct, then we don't have to do anything. That seems to
13 be the line of questioning, with the implication that those
14 who propose doing something are rejecting the
15 Administration's projections.

16 I think the point, as I get it, that you folks are
17 making here is that this fund is very sensitive to the
18 economy, and could it not be so that the Administration's
19 economic projections would be correct in, say, interest
20 rates, employment, but be wrong on inflation, and growth of
21 wages, those would tip it in; is that not correct?

22 Mr. Myers. Yes, Senator, that is quite correct, and
23 also there is the element of just cyclical behavior of the
24 economy. If you had a temporary recession, more
25 unemployment, the prices kept going up like we have had in

1 the past, this could hit it bad, too.

2 Senator Chafee. You could have way less than a
3 depression, and this fund could be broke, unable to pay
4 benefits.

5 Mr. Myers. Yes, that is correct.

6 Senator Chafee. I appreciate that, thank you.

7 The Chairman. Senator Danforth, and then Senator
8 Moynihan.

9 Senator Danforth. Mr. Chairman, I think we could go on
10 in this vein for possibly days. Really a lot of this
11 argument has taken place in the past, and Senator Armstrong
12 chaired several days of hearings on social security.

13 I think that it has been pretty clear from the outset
14 that the practical question is whether or not Congress is
15 going to act on something, whether we are going to do
16 something.

17 It was recognized also from the outset by Congressman
18 Rostenkowski, and by Senator Baker, and by many other people
19 that it would take a bipartisan effort, and really an
20 extraordinary effort, to deal with something as volatile
21 politically as the social security question, if we are going
22 to do anything at all.

23 So I think the point of time has come to put the
24 question of whether we are going to proceed further with
25 this issue or drop it. If we are going to proceed, what

1 method are we going to use, what procedure are we going to
2 follow from this point on.

3 Therefore, I would like to offer a resolution for a
4 vote, designed to put this question. There are four points
5 that are made in the resolution.

6 One, the long and short term problems of the social
7 security system are serious and Congress should address
8 them.

9 Two, the solution to the problem will require more than
10 interfund borrowing.

11 Three, as a practical matter, any solution to the
12 social security problem must be bipartisan, and must involve
13 both the House and the Senate.

14 Four, the chairman and ranking minority member of the
15 Finance Committee are instructed to designate a committee
16 comprised equally of Democrats and Republicans to call upon
17 the House Ways and Means Committee for the purpose of
18 developing a bipartisan package to remedy the social
19 security problem, and to report back to the Finance
20 Committee on or before Friday, October 2.

21 The Chairman. I think before we act on anything like
22 that, I want Senator Long to be present, and others who
23 might want to comment on it. I think you are probably
24 correct. I think we all agree there is a problem.

25 The second part of that resolution, some probably feel

1 that if we can address it by interfund borrowing, others of
2 us would believe that we should make other reforms. I am
3 certainly willing to put the question, but I think before
4 that I indicated to one or two members that we would not have
5 any votes, and I would want them to be notified, Senator
6 Baucus, and Senator Bradley.

7 Could you withhold that for the time being, while I
8 recognize Senator Moynihan and others who may have general
9 questions.

10 Senator Danforth. If I could just respond to that. I
11 would like to put the question today, if you feel that in
12 fairness to the members of the committee there sufficient
13 notice because really I think the time has come to get off
14 the dime.

15 If we are going to do nothing, if we are going to
16 decide that we can't do anything, and we are just headed
17 into a hornet's nest, and we will never get out of the
18 hornet's nest, and we will be stung and nothing will ever
19 come of it, I think that we should recognize that now.

20 On the other hand, if we do feel that there is an
21 important problem, and that more than interfund borrowing is
22 going to be required, then it seems to me that some process
23 has to be set up to try to at least come to something that
24 we could agree on. This kind of process is the one, it
25 seems to me, that would have the most likelihood of

1 success.

2 So, if it is possible, I would like to press at least
3 this procedural question to a vote now. I think if the
4 answer to this is, no, let's just go along and hope the
5 projections are wrong, then, that is one approach and there
6 is no need to keep knocking ourselves over the head with
7 it.

8 The Chairman. I think we can recognize Senator
9 Moynihan, and I will check with Senator Long.

10 I would not want to overestimate or underestimate the
11 sensitivity of this issue. One member hinted that we should
12 not even meet, that somebody might take our picture, and it
13 would get back home that we were discussing social
14 security. You would think that we were meeting on drug
15 trafficking, or something.

16 (General laughter.)

17 The Chairman. We are really here to address a very
18 serious problem, and I think we are all prepared to do
19 that.

20 Let me, while I yield to Senator Moynihan, see if
21 Senator Long is here.

22 Senator Moynihan. Mr. Chairman, may I first say to my
23 friend, Senator Danforth, that he is going to find us
24 wishing to cooperate in this kind of enterprise, I am sure.
25 But it is a cooperation that is being sought in the

1 aftermath of some very uncooperative acts.

2 I appreciate particularly his distinguishing between
3 the near term and the long term phenomenon. There are two
4 independent questions here, they are independent questions.
5 As part of our rhetoric of economic Dunkirk, and disaster,
6 and so forth, we have heard numbers in the trillions thrown
7 out about issues that are nothing of that order, and they
8 have to do with 75-year projections into the 21st century.

9 Could I say this, and I would like to ask Dr. Rivlin
10 for her judgment -- although she doesn't give us advice, she
11 gives us judgment. On March 5, 1981, Mr. David Stockman,
12 the Director of the Office of Management and Budget,
13 appeared before the House Banking Committee and said as
14 follows: "In the short run, I would suggest to you that for
15 the next three or four years, a combination of improved real
16 economic growth, the kind of inflation reductions that are
17 radical but that we foresee, and some interfund transfers of
18 existing tax revenues, can avert any near term solvency
19 problem." That is March 5.

20 What has intervened to change the view of the Office of
21 Management and Budget so, in your view?

22 Ms. Rivlin. The statement, I think, is still true. On
23 very favorable assumptions, one could get by. What has
24 probably intervened is the realization that one can't always
25 count on things turning out that well. Mr. Stockman had

1 been in office only a little over a month on March 5.

2 Senator Moynihan. Are you suggesting that statements
3 of the Director of the OMB prior to, say, April 15, should
4 be discounted at 15 percent per week, or something like
5 that?

6 Ms. Rivlin. No, I think you probably should get Mr.
7 Stockman back up, and get him to give you a longer statement
8 which would probably be, "on the one hand, and the other
9 hand," like most budgeteers.

10 Senator Moynihan. May I just point out that on March 5
11 there was no problem at all, and then on May 10 there was a
12 \$280 billion reduction in benefits that was proposed. If
13 the Administration had a little confidence in its economic
14 program, that it evidently now does, that is one thing, and
15 we can understand it. We have made mistakes, and we have
16 been on the wrong hand of investments, too.

17 We are asking for the poorest people in this country to
18 become poorer yet in the aftermath of a \$3 trillion tax cut,
19 very little of which went to them. May I just point out,
20 for example, in Puerto Rico, we abolished the minimum
21 benefit in Puerto Rico, and there are 100,000 people in
22 Puerto Rico who live on it, they no longer do.

23 The Chairman. It has not happened yet.

24 Senator Moynihan. It hasn't yet, but if it does. The
25 theory is that the SSI would pick up such persons, but there

1 is no SSI in Puerto Rico. We have to be concerned with the
2 persons for whom this program was principally designed.

3 Senator Chafee. Is this a discussion on the Danforth
4 resolution?

5 Senator Moynihan. If you like, yes.

6 The Chairman. It touches on it.

7 Senator Danforth. Mr. Chairman.

8 The Chairman. Have you finished, Senator Moynihan?

9 Senator Moynihan. Yes.

10 The Chairman. I missed the finish.

11 Senator Moynihan. Perhaps Senator Danforth didn't.

12 Senator Danforth. Mr. Chairman, it may be that anybody
13 is right. It may be that Senator Moynihan is correct. It
14 may be that it is needless that we do anything except
15 interfund borrowing. That could be right. I am not arguing
16 at this time that question. I am simply saying that the
17 time has come to get on with it. Let's decide either to do
18 something or to do nothing, rather than simply talk for
19 endless periods of time.

20 All this resolution posits is that there is a problem,
21 and if we are going to be responsible in the Congress, if we
22 are going to be responsible, we must address the problem.
23 We can't just cross our fingers and hope that it goes away,
24 and that the problem, according to this resolution, just to
25 force the vote, must be solved by more than interfund

1 borrowing.

2 If interfund borrowing was enough, that we can agree on
3 interfund borrowing I am sure in 10 minutes flat. So if
4 this would be voted down, then my suggestion, Mr. Chairman,
5 would be, let's proceed with the subject of interfund
6 borrowing, and do it, and that would be fine with me. That
7 would be just absolutely great as far as I am concerned, I
8 plan to be running for election in 1982, and I don't want to
9 face this anymore than anybody else.

10 But if we are going forward, if we decide that, yes, we
11 have got a problem and that more than interfund borrowing is
12 required to solve it, then as a practical matter, if it is
13 going to get through the House and Senate, if whatever we
14 decide on is going to get through the House and the Senate,
15 it must be a bipartisan effort.

16 That bipartisan effort is going to have to be put
17 together quietly, it is going to have to be put together
18 responsibly, it is going to have to be put together with a
19 minimum of rhetoric, and it is is going to have to be put
20 together in just very quiet discussions between responsible
21 Democrats and Republicans in both the Senate and the House.

22 All I suggest is that we see, as we have often done in
23 the Finance Committee in the past, whether quietly, without
24 the rhetoric, without the pointing in the past, or viewing
25 with alarm, we can get together something that we can

1 reasonably agree on, and come back with it. If the answer
2 to that is, no. If the answer is that the sentiment is not
3 for that, even among our own members, or in the House of
4 Representatives, then that is the end of it. Then, we are
5 absolutely stalemated, we are stymied, and we can't address
6 it.

7 I think that this is the most low keyed way that I can
8 think of to at least put the question.

9 Senator Moynihan. Could we amend the resolution as
10 follows: could we first say that we agree that our concerns
11 are internal to the social security system, the agreement in
12 principle which we reached as we opened up today. Whatever
13 may have been the past, whatever may have been the concerns,
14 suspicions, rightly or wrongly, they are behind us, and we
15 are dealing with the internal matter, and that is what we
16 wish to resolve.

17 Can we say that there is a near term and long issues
18 which are centrally independent. It is a spectrum, but they
19 really are, the question of 1985 and the question of the
20 year 2035. Can we say that they may require more than
21 interfund borrowing, because it may have been that Mr.
22 Stockman was right, and still fresh and energetic back in
23 March, and he has just gotten groggy lately, as it sometimes
24 happen.

25 Lastly, can we say that we consider that the issue of

1 the minimum benefit is open for reconsideration.

2 The Chairman. I might say, in reference to that, that
3 that is open for reconsideration.

4 Senator Moynihan. I know that to be the chairman's
5 thinking.

6 The Chairman. There are a number of options
7 circulating, and I hope to have some comment on that today.

8 I will say, very honestly, we are trying to reach
9 Senator Long, and I would not take any action without his
10 being here. I know he has had a cold all day, and he may
11 have gone home. If that were the case, I am wondering if
12 the Senator from New York and the Senator from Missouri
13 might refine the language.

14 There is going to be a meeting tomorrow morning, and I
15 can assure the Senator from Missouri that we would vote on
16 it at that time, but I would not want to vote in the absence
17 of the Senator from Louisiana, and the Senator from New
18 Jersey, and the Senator from Montana, because I promised
19 them that if there were any votes, they would be notified,
20 and I indicated that there probably would not be a vote. It
21 is my responsibility as the chairman to make sure that all
22 members are notified.

23 Could you, Senator Armstrong, and Senator Moynihan,
24 could you work out --

25 Senator Danforth. Yes, I think can reach an

1 agreement.

2 I would say this, and I would like to say this in the
3 open. I don't think the question on interfund borrowing is
4 really going to put the issue properly. I think we are just
5 going to have to reach an assumption based on what we know,
6 and based on the testimony before us, and the testimony
7 before Senator Armstrong's subcommittee -- I think we are
8 going to have to make an assumption based on that as to
9 whether or not interfund borrowing by itself will do the
10 trick. We are just going to have to resolve that. If the
11 answer to that is, yes, it will, that it is sufficient for
12 our purposes, then we really need to go no further. If the
13 answer to that is no, then we have got to go through much
14 more painful steps to reach some reasonable accommodation on
15 it. I really think that question has to be answered in a
16 yes or no fashion.

17 The Chairman. I think it could be drafted in a way
18 that that could be accomplished, where it would be answered
19 either yes or no.

20 Senator Armstrong. Mr. Chairman.

21 The Chairman. Senator Armstrong.

22 Senator Armstrong. I hope we won't draft it that way
23 because if we do, we are not accomplishing the purpose.

24 The Chairman. I don't which way you are talking
25 about.

1 Senator Armstrong. I hope that we will finesse the
2 question. The whole issue is whether or not we think we
3 need to do more than interfund borrowing. I don't think
4 there is anybody that disagrees to the notion of interfund
5 borrowing. The Administration has proposed it.

6 The Chairman. My point is, you can offer the
7 resolution, somebody can offer an amendment, and you would
8 have a vote that way.

9 Senator Armstrong. Of course, but the real issue, I
10 think, has just been beautifully framed and in a very low
11 key, non contentious way by the Senator from Missouri. I
12 think it really points the way to the resolution of the
13 problem.

14 I am a relatively new member of this committee, but it
15 is my understanding that it has long been the tradition of
16 the finance committee to start out on a task of this kind by
17 arriving at some common understanding as to where the
18 committee was going not binding anybody, but just to set the
19 stage for it.

20 For example, I recall that the first motion that we
21 took up when we marked up the tax bill was to set the
22 parameters that we wanted to achieve, and I think that is
23 all Senator Danforth is doing. He is saying, either we
24 think interfund borrowing is enough, in which case we can
25 report that, he said 10 minutes, and I think we could do it

1 in maybe five minutes, but we could do it quickly. I have
2 no doubt, and I haven't had any doubt for a long time that
3 we are going to modify in some way our action on the minimum
4 benefit, and if that is all we are going to do, then, that
5 is fine.

6 If we are actually going to get a bill out, what
7 Senator Danforth has suggested is absolutely consistent with
8 the facts as I understand them, which is that first we have
9 got to have a bipartisan bill, and second, and I would add
10 this, it is not in his resolution, in addition to having a
11 bill that is acceptable to a bipartisan group in the Ways
12 and Means Committee and the Finance Committee, we must have
13 the cooperation of the leadership of both Houses.

14 I don't think that we can expect as a practical matter
15 that the leadership of the Senate is going to schedule a
16 bill unless there is a reasonable prospect that we have got
17 a bill that is going to be passed in the House as well. We
18 have a busy calendar, and we are hoping to adjourn by
19 Christmas or sometime.

20 I would also make this point, which is not contained in
21 the Danforth resolution, but which is entirely consistent
22 with it, the kind of a format which Senator Danforth has
23 suggested lends itself to extensive consultation with the
24 key outside groups whose active participation in my view is
25 essential to the final resolution of this.

1 There are people whose interests are affected, most of
2 whom have testified before the committee here or in the
3 House, and who we would want to involve, and who could be
4 best involved -- I am talking now about senior citizen
5 groups, taxpayer groups, business groups, and of course the
6 Administration.

7 I just think that it is a neat solution that gets us
8 going, or permits us to go on to other tasks.

9 The Chairman. It gets us up to October 2nd, in any
10 event.

11 I don't have any quarrel and certainly would support
12 the resolution. But I would say, if it is going to be nine
13 to eleven, then there is no need to have a resolution,
14 because if it can't be bipartisan, we can't have a
15 solution.

16 I think in the absence of Senator Long, unless somebody
17 else would like to direct questions to Mr. Myers, the
18 Commissioner, or the Director, Ms. Rivlin, what we can do is
19 to meet tomorrow morning at 10:30, that would give those who
20 have an interest not only in pursuing this, but I would like
21 at that time to call on our staff to talk about some of the
22 options.

23 The thing that has concerned me over the past few weeks
24 is that there has been so much talk about the politics of
25 social security that we have overlooked the problem, and we

1 have never even focused on the options. I am never asked
2 about the options. I am only asked, do you have enough
3 votes to do anything. I guess, if you don't have the votes,
4 maybe you shouldn't talk about the options.

5 In my view, if we would focus on some of these options,
6 and we have taken out of the Administration's package most
7 of those that are objectionable, I believe we could make
8 certain that we could solve not only the short, but the long
9 term problem.

10 Senator Heinz. Mr. Chairman, I know a number of
11 members are very interested in the minimum benefit. Perhaps
12 the hour is too late to get into a discussion of it today,
13 in which case I would propose that we do take it up as an
14 agenda item tomorrow and for these reasons:

15 Our staff on the Senate Committee on Aging has analyzed
16 very carefully the law that we have written and will be
17 going into effect next year unless we do something about it
18 as part of the tax bill. I think it is becoming
19 increasingly clear that of some 600,000 persons, out of the
20 three million that now receive the minimum benefit, are
21 truly needy people. These are people who would qualify
22 under the most liberal definition of the SSI, Supplement
23 Security Income Program.

24 CBO, and Dr. Rivlin will correct me if I am wrong, has
25 estimated that somewhere between 5 and 40 percent only of

1 those 600,000 people might be expected to transfer from the
2 minimum benefit to SSI. That means that we could have
3 anywhere from 550,000 to 350,000 needy people who, in fact,
4 would not be receiving either SSI or the minimum benefit.

5 There are a number of ways to address that problem, but
6 I think it would be very important for this committee to go
7 on record that that is a problem we are going to address,
8 that we will take action to protect those needy people I
9 have just described.

10 Some people may want to broaden that definition of
11 need. There are at least seven options I have seen as a way
12 to get a handle on that. Senator Kassebaum, your junior
13 Senator, has a proposal. Other people have a proposal. It
14 seems to me that we do need to come to a conclusion on that
15 because if we don't do that, what could easily happen is
16 that Congress will over-react and simply restore the entire
17 minimum benefit in perpetuity, and frankly that would be
18 wrong because there are an awful lot of people receiving the
19 minimum benefit, hundreds of thousands of them, who are not
20 needy, who have substantial sources of income, and who are
21 getting a benefit that quite literally they did not earn.

22 So it seems to me in order to head off a fiscally
23 unwise reaction, something that if we over-react to it would
24 simply further jeopardize the social security trust fund in
25 the short run.

1 If the Congress, I say to my good friend Pat Moynihan,
2 restores the entire minimum benefit in perpetuity, we will
3 run out of money a great deal sooner than 1984.

4 Senator Moynihan. I did not put it in those terms, did
5 I.

6 Senator Heinz. I did not say that the Senator did. I
7 think I know where the Senator stands on the issue, and I
8 think he has a good sense of it.

9 I do say, Mr. Chairman, that this committee would be
10 making a mistake unless we drew very carefully the
11 parameters of that issue, and did it on a bipartisan basis
12 in the same way as I hope Senator Moynihan and Senator
13 Danforth will be able to tackle the bigger questions of the
14 long term solvency, because this, although it may seem like
15 a relatively minor matter in the scheme of 75 years, could
16 cost the social security system its solvency in the short
17 run unless we handle it right.

18 The Chairman. I certainly share the views that you
19 have expressed.

20 There are six different options, and there may be
21 others. If somebody has another option that we don't have
22 in the list, we would like to have that, I think we will
23 solve some of these things quite quickly.

24 I might ask Dr. Rivlin if she might recalculate on the
25 options, even though she doesn't have all the options, where

1 we would be if, in fact, we started as far as our reserves
2 are concerned. Maybe we can give you the options.

3 Ms. Rivlin. If you would give us the options that you
4 are interested in, we would happy to do a recalculation. We
5 will work with Mr. Myers on it, I am sure.

6 The Chairman. I am now advised, and Senator Moynihan
7 can verify this, that Senator Long would prefer, and Senator
8 Moynihan would prefer to not take any action on the proposed
9 resolution until tomorrow morning.

10 It is therefore my intention to reconvene the committee
11 at 10:30 and that would give both you and Senator Danforth
12 an opportunity, if there might be some common agreement on
13 language.

14 I might say that I have talked to the Chairman of the
15 Ways and Means Committee as recently as today, and I believe
16 if the powers that be would let me, Chairman Rostenkowski
17 and others sit down and look at the problem, we could arrive
18 at a package in an hour that would do a lot toward
19 preserving the integrity of the system, and would not b
20 viewed by anyone as over-reaching or over-financing, or
21 trying to balance the budget with social security. That is
22 not my intent, and neither is it the intent of the Chairman
23 of the Ways and Means Committee.

24 I obviously don't speak for the Speaker, nor do I speak
25 for the Minority Leader in the Senate, but if there is some

1 common agreement among members of this committee, I just
2 refuse to believe that we can't address this problem, and we
3 have to postpone it for two or four years. I think most of
4 us are willing to at least address it head on.

5 Senator Mitchell. Mr. Chairman, I would like to ask a
6 question that is conspicuous by its absence from this
7 discussion today, and that is the proposal that has been
8 much in the news in recent weeks, or the suggestion that to
9 delay the cost of living adjustment would achieve savings in
10 the budget next year.

11 May be infer from the fact that it has not been raised,
12 and it has not been included as part of the chairman's
13 suggested items for discussion today that that matter is
14 behind us, and is not going to be proposed by the President
15 tomorrow night. If that were to occur, then all of that
16 discussion has obviously been academic.

17 The Chairman. It is listed in the options. We have
18 not discussed any of the options, I might say to the Senator
19 from Maine. There are some 15, plus all the excise tax
20 changes that have been suggested, plus the new ones that
21 Senator Armstrong has indicated.

22 I don't know what the President will say tomorrow
23 night, but it is in the list of possibilities presented to
24 the committee, and I am willing to put my name on it, but it
25 doesn't add anything to it. It is under consideration by

1 the committee as is every other option or possibility. They
2 may all be rejected, and part of them may be adopted. It is
3 a matter that has been considered by the Senate in our
4 budget resolution. It may not be an option that the
5 President is considering, but it is in this list.

6 Senator Chafee. Mr. Chairman, one of the problems with
7 Senator Danforth's resolution as far as I am concerned is
8 that it is closed on one end, and that is that we need more
9 than interfund borrowing, but it is open on the other end.

10 The Chairman. He would open it up on both ends if you
11 can do less than interfund borrowing.

12 Senator Chafee. I am not suggesting that, I just think
13 --

14 Senator Danforth. Mr. Chairman, there are endless
15 possibilities to stop any possibility for fixing the
16 problem. I don't purport in this, and I don't think that it
17 is timely at this point to address any pros and cons of
18 possibilities to remedy the social security problem. All I
19 am trying to raise in this resolution is the question of
20 whether or not there is a problem.

21 If it is interfund borrowing, that is not any problem.
22 We can solve that in ten minutes or five minutes as Senator
23 Armstrong says. But if it is a problem, and if it deserves
24 attention, then it would not be my thought to start arguing
25 about what we are going to do at this point, but whether we

1 can set out a process that might lead something. It might
2 not, we might not have any agreement in this committee, or
3 any agreement in the House of Representatives.

4 All I want to do is to say, are we going to move from
5 this point forward.

6 Senator Chafee. All I want to do is make clear that I
7 am adamantly opposed to that aspect of the proposal, and
8 would not want any vote to go beyond interfund borrowing to
9 be construed in any way as even wanting to consider that
10 possibility.

11 Senator Danforth. I don't think that it can be
12 construed as anything.

13 The Chairman. You might come up with some other
14 solution that no one has thought of that is painless.

15 Senator Heinz. Mr. Chairman, I don't wish to prolong
16 the session, but as long as we have Ms. Rivlin, and the
17 experts from social security here, there is one other
18 element regarding the minimum benefit and its restoration
19 that I think we ought to pin down.

20 Ms. Rivlin, a moment ago, I seem to recollect you
21 saying that if we do nothing but interfund borrowing under
22 certain assumptions the social security trust funds would
23 bump up against the bottom of the barrel. What assumption
24 causes us to get below the safety level of 12 percent, let
25 us say?

1 Do we get to the bottom of the barrel in 1983 under any
2 intermediate 2(b) under present law?

3 Ms. Rivlin. I don't remember exactly, but let me ask
4 Mr. Myers on that.

5 Senator Heinz. Mr. Myers, are you the expert on that?

6 Mr. Myers. If the economic assumptions and
7 alternatives 2(b) were to prevail in the actual experience,
8 with interfund borrowing you could continue until the late
9 '80s without any problem.

10 Senator Heinz. What is the lowest level you would get
11 to as a percent?

12 Senator Moynihan. It is 13 percent if you use the
13 calendar year, and 17 percent if you use the fiscal year.

14 Senator Heinz. If we use the pessimistic assumption,
15 which is better than past experience, how low do we get and
16 when? When do we get below 12 percent?

17 Mr. Myers. Assuming that the minimum benefit is
18 eliminated, you would get below 12 percent at about the
19 beginning of 1984. If you restore the minimum benefit --

20 Senator Heinz. I am going to ask you that question.

21 If we restore the minimum benefit in its entirety,
22 where would we be under the pessimistic assumption, when
23 would we get below 12 percent?

24 Mr. Myers. It would move the date up by probably about
25 two months.

1 Senator Heinz. Under intermediate 2(b), when would we,
2 if ever, hit 12 percent?

3 Mr. Myers. That would probably move it up between a
4 year and two years, sometime around 1987 or 1988, instead of
5 the end of 1989.

6 Senator Heinz. So that if we restore the minimum
7 benefit, even if we do interfund borrowing, we hit the
8 bottom of the barrel in 1984 under the pessimistic
9 assumption, and 1986 or 1987, sometime in there, under the
10 intermediate 2(b), and both of those projections are based
11 on economic assumptions more favorable than we have
12 experienced in the last five years, is that correct?

13 Mr. Myers. Somewhat more favorable, not in all
14 respects. On the average, at least as favorable, and
15 somewhat more. As I said, if you restore the minimum
16 benefit fully, I think that it would come sometime toward
17 the end of 1983.

18 Senator Heinz. That is not very far away.

19 Mr. Myers. No, sir.

20 Senator Heinz. That is less than two years away, or
21 just about two years away.

22 Thank you, Mr. Myers.

23 Thank you, Mr. Chairman.

24 The Chairman. If there are no further questions, we
25 would hope that we might be able to prevail on those who are

1 here today, if they are not otherwise occupied tomorrow
2 morning, to be here. I think Senator Bentsen has additional
3 questions of Roger on the point he raised. Perhaps you
4 could furnish us a memo by morning that we could distribute
5 to members.

6 I think we made significant progress, it may not be
7 obvious to those who are not on the committee, and it might
8 not even be obvious to those who are on the committee, but
9 we got in and out alive, and that is progress.

10 (General laughter.)

11 The Chairman. We will reconvene at 10:30 tomorrow
12 morning.

13 (Whereupon, at 4:40 p.m., the committee recessed, to
14 reconvene at 10:30 a.m., Thursday, September 24, 1981.)

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STATEMENT OF SENATOR BOB DOLE

ON SOCIAL SECURITY

Senate Finance Committee

September 23, 1981

Up until the last several weeks -- when the new politics of social security surfaced -- there was widespread agreement that the solvency of the system was in serious jeopardy. Under any major set of economic projections, the old-age and survivors insurance trust fund (OASI) -- the one that pays 75 percent of all benefits -- will be insolvent within the next two years. Having paid out more than it took in over the last 6 years, the fund is expected to have a deficit on the order of \$60 billion in the next 5 years alone. Interfund borrowing would certainly improve the immediate situation, but it would not fundamentally deal with the fact that the system's income is not certain to meet benefit costs throughout the decade. Under intermediate assumptions, \$30 billion would be needed by 1990 to ensure the barest level of solvency, and nearly \$80 billion would be required to restore current levels of reserves.

The situation only becomes more acute in the years ahead. Taking account of the severe deficits likely to characterize medicare by the end of this decade, the entire social security system is expected to run a deficit of \$79 billion (1981 terms) per year over the next 75 years, or \$6 trillion over the entire period.

Responsible Americans everywhere know the seriousness of the situation and recognize the need to take steps now to shore up the system. To neglect taking action now and to fail to make provision for unforeseen contingencies in the years ahead is to be blind to past mistakes. Just 4 years have passed since Congress enacted the largest peacetime tax increase in history (social security payroll tax increases) which supporters claimed would ensure the system's solvency well into the next century.

The legislated increase in taxes, \$480 billion by 1990, was expected to produce trust fund assets that would never fall below 25-30 percent of annual outgo. Trust funds are already below that level and are expected to fall, possibly throughout this decade, to the point of insolvency, despite four tax increases to come by 1990 and a continually rising taxable wage base.

Perhaps the politics of the situation will prevent Congress from taking responsible action. Being an optimist, I still believe we can forge a bipartisan solution. But first we must explore the various options, which is the point of this session.

As we begin these deliberations, I would remind my colleagues that the social security system (OASDI) is expected to spend \$1.4 trillion between 1981-1986, and roughly \$3 trillion between 1981-1990. Proposals to reduce expenditures over the decade by as much as, say, \$80 billion, would account for only 3% of projected spending. Such "restraint" on the benefit side of the ledger is not unreasonable and is clearly worth our consideration.

Many of the voices raised against such modest benefit changes belong to the so-called "experts" who have been advising the Congress throughout years of unprecedented, underfinanced growth of the system. It was largely on the advice of such experts that Congress passed the 1972 Amendments and the 1977 Amendments -- one bill which dramatically increased benefits and one which drastically increased taxes. Certainly, by now we should be wary of such advice.

If all else fails, we'll probably adopt the painless, unproductive, and cosmetic approach -- interfund borrowing, more studies, a lot of speeches, and let the next Congress worry about it.

STATEMENT OF
SENATOR DAVE DURENBERGER
SEPTEMBER 23, 1981

There is no issue that touches the hearts of as many people as Social Security. The impact of this program stretches far beyond the 36 million Americans who receive a Social Security check every month. Our actions this fall to strengthen Social Security will be watched and scrutinized by virtually every American.

Watching us will be the retired person who depends on Social Security as the primary source of income...the worker who has paid into Social Security for years in anticipation of the day those contributions will be returned...as well as the young person who is caught between the prospect of skyrocketing payroll taxes and the concern for his or her parents who are dependent on the continuation of those taxes.

Social Security is a system of intergenerational faith. Its success depends on workers in their 30s and 40s supporting a generation of retired persons in their 60s, 70s and beyond. Younger workers contribute to their parents' retirement with the faith that when they retire their children will support them.

It is up to us to build on that foundation of intergenerational faith. We must assure those who are now receiving Social Security benefits they have earned that they can continue to look forward to receiving every cent of those benefits plus an annual cost of living adjustment. We must assure those who are about to retire that they can make their plans with the absolute confidence that we will not completely overhaul the rules of the game midway through their lives. And, we must assure those who are working today to support their parents and grandparents that when they retire the promise of Social Security will become a reality.

In short, we must strengthen Social Security. We must strengthen not only the economics of the system, but also the public's confidence in Social Security. As much as anything, this system of intergenerational faith demands that workers and recipients believe in the soundness and purpose of Social Security.

Frankly, many public officials have failed to inspire that public confidence. During August I held eight hearings on Social Security in Minnesota. One of the most striking comments came from a woman in Bemidji, a small city in northern Minnesota. She was right to the point when she talked about the concerns many people, especially older Americans, have: "People are terribly frightened out here," she said.

I know she is right. People are terribly frightened. They are frightened because too many public officials have told them to be afraid. Too many politicians have used Social Security like a political football, trying to score temporary points by playing on the fears of a generation who have grown up with the belief that public officials are responsible people.

Let me share with you a note I received from an older couple in Minnesota. The note said this: "The senior citizens who have paid into Social Security must not be robbed now of their savings placed into the United States' keeping for the time of their old age. They must not be robbed of their life savings."

The note struck me for two reasons. First, no one has suggested that the earned benefits of people like this Minnesota couple be eliminated. Yet, this couple is living in fear that their benefits will be "robbed." They have been victimized by political rhetoric.

The second reason is related to the first. The note was written on a full-page newspaper ad--an advertisement that ran in 18 Minnesota daily newspapers--that said--in type up to an inch and a half high--that I and others were trying to eliminate Social Security.

While some of my colleagues on this committee may disagree with me from time to time, I don't think anyone here would suggest that I--or anyone else, for that matter--is trying to eliminate Social Security. All of us are trying to strengthen the system, and while we may have different ideas on how we go about that task, I believe all of us have the best interests of the people in mind.

The fear that many of us have seen in our constituents is caused by more than rhetoric and mudslinging newspaper ads, as distasteful as those are. In 1977 this Congress dealt with Social Security in a crisis and passed the largest peacetime tax increase in our country's history. In 1981 we are dealing with Social Security in a crisis and Social Security recipients are wondering what this year's solution will be.

Unless we act responsibly today Congress will be dealing with Social Security crises for years and years to come. Acting responsibly, though, does not mean that we must find a solution for every problem, real or imagined, today. I believe we must solve the short-term problems as quickly and as fairly as possible.

Earlier, I said that Social Security was a system of intergenerational faith. Frankly, many--maybe most--workers who today are in their 20s and 30s don't believe that there will be anything left for them when they retire.

Unless we act and act wisely, they may very well be right.

Fortunately, we have that opportunity to act wisely. Social Security is in the Finance Committee not just because it is financed by a tax on workers' earnings but because the 20 members of this committee have the jurisdiction to look at this retirement-disability-health program in the broader context of income security.

What Social Security was when today's 70-year-old was 30-years-old is what it should be when today's 30-year-old is 70-years-old. The original intention of Social Security was a supplemental retirement program. Today's retirees grew up believing that it was better to save than to borrow, that it was better to pay your bills than to be in debt, that it was better to buy a home than to rent, that it was better to have a "rainy day fund" than to be unprepared for emergencies. In that setting, Social Security had a special meaning.

But we have taxed away that meaning. We have taxed away the ability to save, to invest, to buy a home. We have turned a society of savers into a society of consumers. The plans laid by the 70-year-old retiree when he or she was 30, 40 or even 50 years old have been taxed away. All the other support systems--including private savings--have been taxed away. Today, retirees are left with Social Security and little more.

So, part of our solution to Social Security will be to go beyond Social Security, to restore the incentives for private savings and investments. Are we going to solve all of that this fall? The answer is obviously no.

But what we must do this year is commit to a process of studying Social Security on an on-going basis in the broader context. And that broader context must include our opportunity to provide individuals to save and invest for their own future.

Thank you.