Statement of

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National Committee to
Preserve Social Security
and Medicare

Submitted to

Committee on Finance
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Regarding

The President's Commission to Strengthen Social Security

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Chairman Baucus, Senator Grassley and members of the Committee. I appreciate the opportunity to testify before the Senate Finance Committee on the Final Report of the President's Commission to Strengthen Social Security. Thank you for holding this timely and important hearing.

For nearly 70 years, Social Security has guaranteed working families some income should the family wage earner die, retire, or become disabled. Social Security provides benefits in a manner that is both progressive and fair. No other wage replacement program, public or private, offers the protections of the Social Security Old Age, Survivors and Disability Insurance program. While Social Security has sufficient revenues to cover currently promised benefits for the next 39 years, incoming revenues beyond that point are projected to cover only about 72 percent of currently scheduled benefits.

The president's commission presented a real opportunity to move the nation toward long-range Social Security reform. Unfortunately, the commission was not a success. The president placed too many preconditions on its work, several of which contradicted Social Security's fundamental mission. Preconditions precluded solutions. Not surprisingly, the commission faltered. It produced three, highly controversial options, each of which failed to meet most of the president's own basic tenets.

Based on analysis provided earlier this year by the Social Security Administration's chief actuary, none of the plans produce long-term program solvency without massive infusions of general revenue, for which no source is specified. All three plans sharply reduce defined benefits below current baselines. All three plans reduce projected overall retirement income for most workers. All three plans lack important details on how the proposed private accounts programs would actually operate. Finally, in addition to retirement benefits, all three plans would sharply reduce not only retiree benefits survivor and disability benefits as well.

The president directed the commission to propose Social Security reform plans that strengthen Social Security and increase its fiscal sustainability. The administration also appropriately instructed the commission to hold harmless those at or near retirement. This should have been direction enough.

Yet the president chose to require that the commission's final recommendation would allow today's workers to divert at least a portion of their payroll taxes to risk-bearing private, personal accounts. With no debate on the merits, the president thus ordered the commission to introduce privatization, a radical departure from the current insurance model. Privatization siphons precious resources from the insurance pool as it exposes a greater share of retirement income to market risk.

Off limits was any discussion of increasing revenues; this mandate that precluded the commission from considering a number of alternatives to benefit cuts, including a proposal to restore the taxable wage base to historic levels by raising the cap to cover about 90 percent of covered wages. The commission could have been instructed to consider a package of any number of small changes, most of which have been discussed at length by experts over the past decade. But with revenues off the table and pressure on to address private accounts transition costs as well as solvency, the commission was handed an impossible task. Thus, the commission's efforts, despite the obvious talents and accomplishments of its 16 distinguished members, ended in failure.

The commissioners fashioned all three plans so that those opting for the accounts take an "actuarially equivalent" reduction in their guaranteed insurance benefits.

Plan 1 further threatens defined benefits by failing to achieve solvency. Plan 2 and Plan 3 pay for incentives to entice individuals to opt for the accounts through additionally cutting the defined benefit. Plans 2 and 3 threaten still further cuts by relying on currently unavailable general fund revenues to achieve solvency. Ironically, these general funds, according to Dr. Peter Orszag, if applied directly to the existing program with no private accounts, would be sufficient to close as much as two-thirds of the current solvency gap without cutting benefits.

Social Security's chief actuary has found that, because of the transition costs commission plans boost the unified deficit by $1.2 trillion to $1.5 trillion in the period between 2003 and 2012. All three plans call for reductions as great as 43 percent in the guaranteed benefit for those retiring in 2075. Under Plan 2, program expenses exceed tax revenues by as early as 2006, thus projected annual deficits over the next decade raise serious questions about the availability of general revenue to cover the costs, even for those currently receiving benefits. The irony here is described by Dr. Carroll Estes in her new book, *Social Policy and Aging,* when she observes, "The Social Security privatization transitional costs will compete with (if not foreclose) on other domestic social spending; yet they either are not described at all or are not described as any kind of problem by privatization advocates."[1]

The final report contains a number of assertions that are either misleading or false. For example, the final report states, in spite of the facts, that the current system places African-Americans at a disadvantage. Although African-Americans comprise 12 percent of the population, they represent 17 percent of those receiving disability insurance benefits and 22 percent of the children receiving survivor benefits. African-Americans also benefit disproportionately from Social Security's progressive structure.

The report also contends that its privatization plans would provide a net improvement for women, while suggesting that the current system has not served women well. But two-thirds of women over age 65 depend on Social Security for at least half of their income, and one-third for at least 90 percent of their income. Privatization is inherently problematic for women, as they tend to spend more years outside the work force, earn less on the dollar than do men for the same work, and are less likely to have any other sources of retirement income.

The commission does propose some positive changes intended to address long-standing inequities for women in the current system that do, in fact, exist. Still these improvements are undermined by dramatically lower replacement rates due to other benefit cuts contained in the plans. The plan just gives them a slightly larger share of a much smaller pie. According to the National Women's Law Center, a couple with relatively equal earnings under Plan 2 would still see a 10 percent cut in survivor benefits, even with the proposal to give widows a greater share of benefits in place. A surviving spouse from a household with less-equal earnings could experience cuts as high as a third of total promised benefits under this plan.

The commission left unresolved many crucial implementation issues. It did not address the age at which the decision would have to be made to opt for the voluntary accounts, although wages are subject to FICA no matter the age of the worker. Nor did the commission address whether the decision would be a one-time choice. Under certain circumstances, the commission allowed for lump-sum withdrawals from the accounts, but it did not clearly define the terms requiring that the remaining combined annuity and guaranteed benefit leave the individual "safely above the poverty line."   The commission also assumed 0.3 percent for

[1] Sage Publications, 2001, p. 116.

administrative costs on the private accounts. This assumption demands greater scrutiny given the experience of such plans in other countries.

Despite the administration's instruction to the commissioners to "preserve" Social Security's disability and survivor programs, all three plans assume benefit cuts as high as 47 percent to these vital programs. If commissioners had adhered to the mandate, the cuts recommended for retirement benefits would have been far deeper. The concept of rates of return on an individual's investment or the concept of an individual getting one's "money's worth" is incompatible with the structure of Social Security as insurance. And this is immediately apparent when severe disability or death of a family wage earner strikes a young household.

The administration also sought to limit discussion by selectively appointing to the commission only individuals who already had expressed support for privatization. By contrast, President Reagan's 1983 Greenspan Commission included noted scholars, members of Congress, seniors' advocates, corporate leaders and representatives of organized labor—all of whom were given little instruction beyond a mandate to recommend changes necessary to preserve the program. Many of the decisions were difficult but necessary at the time because our government had waited until only four months of solvency remained in the program. Today, we have adequate time before program revenues fall short of promised benefits.

The true value of the commission's report is that it exposes privatization's fundamental failings. How telling it is that pollsters are advising pro-privatization candidates to avoid using the term "privatization" this fall. In distancing themselves from the term, they will not succeed in changing the debate. Still, the administration continues to voice support for personal accounts plans. I believe that the issue is not dead but merely in hibernation, to be revived after the mid-term elections.

Privatization sounds appealing in concept, but is fatal in reality. The devil is in the details. The mission of the National Committee is to see that all American citizens truly understand the ramifications of privatization. When presented with the fine print, the American public will never abide the benefit cuts and risk that privatization demands.

Chairman Baucus, I know you are a leader in the fight in the Senate against Social Security privatization, and we are truly grateful. I appreciate the opportunity to appear before you today. I look forward to any questions the distinguished members of this committee may have.