

The White House Conference on Social Security

Statements From Participants

December 8-9, 1998



THE WHITE HOUSE

WASHINGTON

December 4, 1998

I am pleased to welcome all those who are participating in the first-ever White House Conference on Social Security.

During the past year, we have worked hard to foster a national discussion on Social Security reform. Through regional forums -- culminating in this conference -- we have strived to create a climate conducive to bipartisan Social Security reform. We now have a historic opportunity to save Social Security for the 21st century.

Since its creation more than 60 years ago, Social Security has been a bedrock of retirement security for Americans. That's why it is so important for all of us to work together to find the best way to strengthen Social Security for future generations. There are 76 million baby boomers in our country today who are looking ahead to retirement. Consequently, by the year 2030, there will be twice as many elderly Americans putting pressure on the Social Security system as there are today. After 2032, Social Security will only have enough resources to cover 72 cents on the dollar of current benefits.

We must act now to tackle this tough, long-term challenge. We must strengthen Social Security, and I believe we can do it in a way that maintains universality and fairness, ensures that Social Security continues to provide a benefit people can count on, protects low-income beneficiaries and those with disabilities, and sustains our fiscal discipline.

This conference will help to pave the way for comprehensive, bipartisan Social Security reform next year. As you know, to ensure that all voices in this debate are heard, I invited every conference participant to submit a statement of his or her views on Social Security. The compilation of these statements reflects a variety of perspectives on the future of Social Security. I hope that you find the statements -- and this conference -- a helpful summary of the debate on this critical issue.

I appreciate your interest and leadership on Social Security, and I look forward to your continued participation as we work to save Social Security for our children and grandchildren.

Bill Clinton



As a co-sponsor of three national forums this year on Social Security, as well as the host of many of our own public events, AARP strongly values the importance of educating the public about the Social Security program, its financing, and the options for strengthening it over the long term. Social Security enjoys unparalleled popular support among Americans of all ages, and the public believes in a continuing strong role for the program in the future. The question before the White House Conference on Social Security, and ultimately our nation's leaders, is how to preserve Social Security's fundamental protections and strengthen the program for generations to come.

Now is the time for thoughtful deliberation and careful analysis – a time to build consensus for any changes necessary. Fortunately, there is no crisis. Social Security is on solid financial footing for the foreseeable future. Without any change in current law, the program can pay all the benefits currently promised until 2032 and about 75 percent for decades thereafter. Just as we have done before, we will need to make some prudent changes to Social Security. While we need not adopt hasty solutions, acting sooner rather than later means the changes can be more moderate and those affected will have more time to adapt their retirement plans.

As we consider the options, we should recognize Social Security's value and uniqueness. It provides lifetime income protection for workers and their families against financial hardship resulting from the retirement, disability, or death of a wage earner. Social Security is the primary and only assured source of retirement income for most older Americans. Social Security provides a guaranteed income stream, adjusted annually for inflation, that you can't outlive. In fact, without Social Security, almost half of older beneficiaries would be in poverty. Social Security's current benefit levels are particularly essential for low-income and long-lived retirees. The benefits guarantee a base of income for those who are least able to save or who have no pension benefits. Social Security also provides the only long-term disability coverage for 3 out of 4 workers, as well as life insurance protection for 98 percent of the nation's children. The combined value of Social Security's survivor and disability components for a worker, a spouse and two children is estimated at a half million dollars.

Social Security is the foundation for family income protection on which workers can add pensions and individual savings in order to build a secure retirement. This approach to retirement spreads the risk and responsibility among the government (Social Security), employers (pensions) and individuals (savings and investments). Despite this goal, two out of three older beneficiaries today count on Social Security for at least half of their income, and nearly one third rely on it for at least ninety percent of their income. Social Security's predominant role reflects shortcomings in the pension and savings components. Our elected officials should consider the entire retirement income framework as they examine the options and tradeoffs for modifying Social Security. As we evaluate solutions to provide adequate retirement income security, we must recognize

the interaction between changes in Social Security, pensions, and savings, including retirement income incentives in the tax code.

While most experts agree that some modifications will be needed to strengthen Social Security over the long-term, there is considerable disagreement about what is the best approach. Historically, solvency packages have included a balance of benefit reductions and revenue increases. The report of the 1994-1996 Social Security Advisory Council added a new element into the picture: private market investment (sometimes referred to as privatization). It is tempting to view the private markets as the “free lunch” that helps avoid the tough choices, but as we all know, there is no free lunch.

Even if market investment is part of the solution – either by individuals investing a portion of their payroll taxes or through alternative investment of the trust funds themselves – it is important to understand that other changes will still be necessary. In fact, if a portion of existing payroll taxes is used for private accounts, the underlying program will have less revenue to fund the benefits of those currently or soon to be receiving them. This would require dramatic cuts in benefits well beyond what is currently needed in order to restore long-term solvency. After a long transition period from the current system to a restructured system that includes individual accounts, some investors may be able to amass a sufficiently large portfolio to offset the benefit cuts. However, many others would not, particularly when one factors in higher administrative costs and uncertain investment returns. While individual savings for retirement are critical, retirement savings accounts should be an addition to, not a replacement for, Social Security’s lifetime benefits.

AARP has a number of principles and policies that will guide us as the Social Security issue moves forward. We recognize that current beneficiaries, particularly those who are most vulnerable, are less likely to be affected by any solvency package. However, we think that all who participate and are able should make some contribution to strengthening Social Security. We believe the program should continue to provide a solid income foundation for workers who retire (including those who retire early), for wage earners who become disabled, and for the families of deceased workers. We support linking benefits to a worker’s time and earnings in the labor force and providing benefits to all who earned them. And, once benefits begin, they should be adjusted for inflation so that workers do not become poorer in real terms as they become older.

Social Security is the solid foundation on which income security is built, and all of us have a role to play in ensuring that we strengthen the program. As we look at ways to reform Social Security, we must not jeopardize the guaranteed benefit base that Social Security provides. In addition, each of us has a responsibility to plan for the future through pensions and individual savings. We must also remember that health care has become an increasingly critical part of retirement security. While Social Security should continue as the foundation, a secure retirement also requires sound coordinated public policy on Medicare, private pensions, and individual savings.

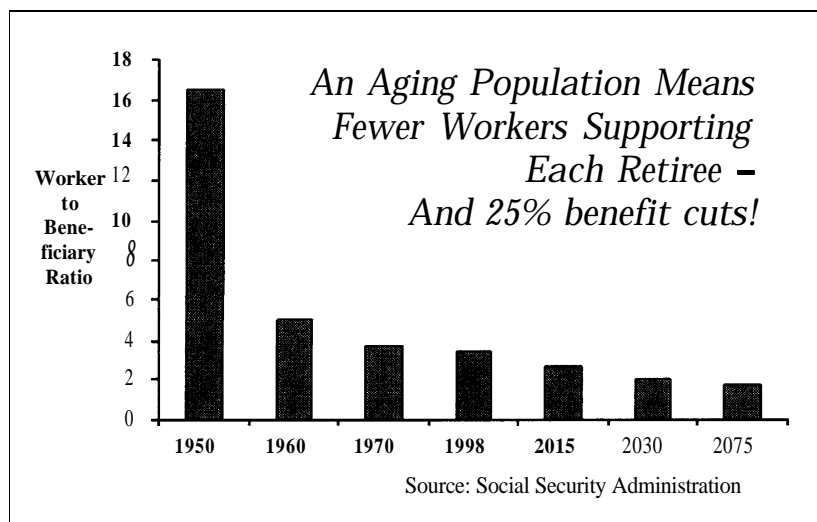
The Alliance for Worker Retirement Security

The Alliance for Worker Retirement Security was launched this fall by the National Association of Manufacturers to bring together a diverse group of business, public policy, and other activists in support of Personal Retirement Accounts as a solution to the crisis facing Social Security.

Under Executive Director Leanne Abdnor, its membership has grown to include such groups as the National Association for the Self-Employed, the United Seniors Association and the National Federation of Independent Business.

While many of our members support various specific proposals for reform, all have agreed that tax increases are no longer a viable means of propping up the Social Security system and have embraced the fundamental principle of allowing workers to invest a portion of their mandatory retirement savings in wealth-building accounts that can be left to heirs. AWRS also believes that existing benefits *must* be preserved for the currently- and near-retired, and that a government-guaranteed safety net be maintained against poverty in old age.

As the attached graph indicates, the crisis facing Social Security is one of simple demographics. Once 17 workers supported each retiree, but today it is three and soon only two. The government's own projections make clear that seniors face a long-term reduction of 25 % in benefits – an average of \$200 a month – if nothing is done. Those who oppose Personal Retirement Accounts have made no indication of how they would close this multi-trillion dollar gap.



The AWRS recently spearheaded the launch of a national “Campaign to Save and Strengthen Social Security.” At our media event in the U. S. Capitol, a diverse group of more than 40 organizations – from women’s and minority groups to taxpayer and small business associations – was joined by Senators Chuck Robb (D-VA) and Rick Santorum (R-PA) in committing themselves to the principles outlined above. (A joint statement is attached.)

All believe that only Personal Retirement Accounts are capable of saving and strengthening the Social Security system to the point that it can provide sufficient benefits to guarantee a dignified retirement for Baby Boomers and their children. The tens of millions of workers and other individuals whom we represent understand the crisis facing Social Security, and polls show they are eager to embrace the potential for growth and opportunity offered by market-based reform.

The wealthy have long enjoyed the benefits of what Sen. Daniel Patrick Moynihan of New York has called “the miracle of compound interest” ; building wealth and sharing in America’s prosperity and economic growth. It’s time America’s workers were allowed to join them.

Campaign to Save and Strengthen Social Security

December 2, 1998

TO: President Bill Clinton, Congressional Leaders
FROM: Campaign to Save and Strengthen Social Security

The Social Security system, America's most popular government program and the foundation of retirement security for millions of workers, is rapidly approaching a crisis of demographics. The Social Security system is facing a shortfall of \$9 trillion and today's young workers face a negative return on their lifetime FICA contributions. It has become clear that the traditional solution of raising payroll taxes is no longer viable.

We, the undersigned organizations, representing tens of millions of Americans in fields ranging from academia to manufacturing, jointly announce a national campaign to promote the reform of Social Security according to the following principles:

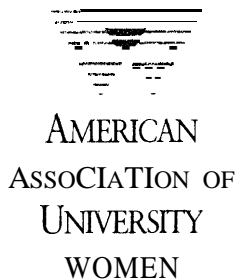
- Preservation of the existing benefit levels for the currently and near-retired;
- Permitting workers to invest a portion of their FICA contributions into individually-controlled and owned Personal Retirement Accounts; and
- Protecting all retirees with a government-guaranteed safety net.

We urge the nation's political leadership to work together to save and strengthen Social Security with creative and growth-oriented solutions to the crisis facing all of us, for the benefit of our own and future generations.

Alliance for Worker Retirement Security
Small Business Survival Committee
Economic Security 2000 Third Millennium
Heritage Foundation
National Association for the Self-Employed
National Federation of Independent Businesses
United Seniors Association
Americans for Tax Reform Sixty Plus
America's Future Foundation
The Seniors Coalition
Council for Government Reform
Business Roundtable

American Farm Bureau Federation
Hispanic Business Roundtable
National Restaurant Association
U.S. Chamber of Commerce
Dorcas Hardy, retired
Social Security Commissioner
Coalition on Urban Renewal And Education
Citizens for a Sound Economy
National Taxpayers Union
National Association of Woman Business Owners
Empower America
Competitive Enterprise Institute
Boomers USA
Center for New Black Leadership
Gypsum Association

National Small Business United
National Retail Federation
Alliance for Affordable Services
American Small Business Association
National Association of Manufacturers
IRET
National Center for Policy Analysis
American Greeting Card Association
Council on Economic Development
Employment Policy Foundation
American Legislative Exchange Council
Independent Women's Forum



SOCIAL SECURITY REFORM

For more than a century, the American Association of University Women (AAUW) has promoted equity in the workplace, education, and in all aspects of women's lives. AAUW has long been committed to a Social Security program that improves the social status and economic security of the elderly. As the 106th Congress considers proposals to reform the current Social Security system, the economic well-being and security of women must be safeguarded. It is critical that the following factors be considered:

Women are more dependent on Social Security than men.

- *Women earn less than men.* For every dollar men earn, women earn 74 cents, which translates into lower Social Security benefits. In fact, women earn an average of \$250,000 less per lifetime than men—considerably less to save and/or invest in retirement.
- *Women are half as likely as men to receive a pension.* Twenty percent of women versus 47 percent of men over age 65 receive pensions. Further, the average pension income for older women is \$2,682 annually, compared to \$5,731 for men.
- *Women do not spend as much time in the workforce as men.* In 1996, 74 percent of men between the ages of 25 and 44 were employed full-time, compared to 49 percent of women in that age group. Women spend more time out of the paid work force than do men in order to raise families and take care of aging parents.
- *Women live longer than men.* A woman who is 65 years old today can expect to live to 85, while a 65 year old man can expect to live to 81. Because women live longer, they depend on Social Security for more years than do men.

Women need guaranteed benefits they can count on.

- *The poverty rate among elderly women would be much higher if they did not have Social Security benefits.* In 1997, the poverty rate among elderly women was 13.1 percent. Without Social Security benefits it would have been 52.2 percent. For elderly men, the poverty rate is much lower at seven percent. If men did not have Social Security benefits, the poverty level among them would increase to 40.7 percent, a smaller increase than for women.

- *Social Security benefits are the only source of income for many elderly women.* Twenty-five percent of unmarried women (widowed, divorced, separated, or never married) rely on Social Security benefits as their only source of income. It is the only source of income for 20 percent of unmarried men.
- *Older women of color are poorest in retirement.* Only 25 percent of African American and 33 percent of Hispanic women have income from savings or assets. The poverty rate is particularly high among African American women over age 65, at 28.9 percent.

Any Social Security reform must increase the stability and security of retirement income, including maintaining and protecting:

- *Full cost of living adjustments.* The current Social Security system protects against inflation, a crucial protection against the erosion of benefits. This provision is particularly important to women because they live longer, rely more on Social Security, and lack other sources of income. Pensions and personal savings accounts are rarely indexed to inflation, and retirees may outlive those assets.
- *A progressive benefit formula.* Social Security should continue to replace a larger share of low-income workers' past earnings as a protection against poverty, and beneficiaries who earned higher wages during their work life should continue to receive benefits related to their earnings history. The current benefit formula compensates women for lower lifetime earnings.
- *Spousal benefits.* Social Security's family protection provisions help women the most. Social Security provides guaranteed, inflation-protected, lifetime benefits for widows, divorced women, and the wives of retired workers. Sixty-three percent of female Social Security beneficiaries age 65 and over receive benefits based on their husbands' earning records, while only 1.2 percent of male beneficiaries receive benefits based on their wives' earning records. These benefits offset the wage disparity between women and men.
- *Disability and survivor benefits.* Social Security provides benefits to three million children and the remaining care-taking parent in the event of premature death or disability of either working parent. Spouses of disabled workers and the widows of workers who died prematurely also receive guaranteed lifetime retirement benefits. These benefits have enabled women to hold their families together under tragic circumstances.

Contacts: Nancy Zirkin, Director of Government Relations, 202/785-7720
Ellen Buchman, Field Manager, 202/785-7704

Public Policy & Government Relations Department
December 1998

AFGE OPPOSES ALL FORMS OF SOCIAL SECURITY PRIVATIZATION

The American Federation of Government Employees, AFL-CIO (AFGE) is equally opposed to privatizing Social Security into a system of individual accounts or privatizing the investment of the OASDI Trust Fund.

The arguments against individual accounts are well known: They undermine the progressive character of the program, they put too much risk on individuals, they are inefficient (costing hundreds of millions in unnecessary fees and profits to Wall Street firms), and the transition is costly, requiring tax increases, benefit cuts, and/or retirement age increases.

AFGE's opposition to "*collective*" or "*direct government*" stock market investment have to do with: (a) the impact on the federal budget, (b) the loss of democratic/popular control over the investment of the Trust Fund, (c) the inherent risks to benefits, and (d) the fact that the "rate of return" arguments which favor privatization cannot be reconciled with the Social Security Trustees' projections of a Social Security solvency problem.

- *Collective private investment would have an enormous and harmful impact on the federal budget.* Investing even as little as 40 to 50 percent of the Trust Fund in private equities would require initial federal outlays of between \$60 and \$80 billion. In the context of balanced budget politics, this money would have to come either from spending or new taxes. We predict massive spending cuts, affecting federal jobs and benefits, as well as further general budget pressure on the programs and agencies all Americans depend on. Indeed, some backers of this proposal consider the attendant reduction in government spending its highest virtue.

- *The issue of democratic control, reflected in the debate over the benefits of private vs. public investment, is an important one for working families.* Those Republicans that favor individual accounts said it would give Americans *more control* over the way their Social Security taxes were invested and that Democrats didn't trust people to have that control. The strength of this populist rhetoric is lost on advocates of collective private investment. While individual accounts give the illusion of control, the collective privatization plans explicitly prohibit any democratic control. Meanwhile the *status quo*, which provides the only real democratic control, is unappreciated for what it is.

Treasury bonds, unlike corporate bonds, are invested for the public good by those who are democratically elected to represent the public. In contrast, all plans for "collective" private investment so far have insisted upon strict rules prohibiting government "interference" in corporate governance. Trustees of a privatized financing system for Social Security would have a fiduciary responsibility to support corporate plans to maximize profits. Unfortunately, maximizing profits has increasingly come to mean shipping American jobs overseas, compromising the environment, and violating the rights of workers both in the U.S. and abroad.

- *Privatizers may hope for the best, but the majority of Americans who depend on Social Security must prepare for the worst.* There have been several sustained downturns in the private equity markets since the establishment of Social Security, some of a magnitude which would have threatened the ability of a privatized Social Security Trust Fund to pay full benefits. Yet Social Security, entirely insulated from fluctuations in the private equity markets, has never missed a payment in 60 years.

There is no way that advocates of collective private investment can guarantee that if the stock market investments do not perform as promised, benefits will not be cut. On the contrary, there is every reason to believe that Americans will be told that they collectively accepted the risks of the stock market when they “agreed” to private investment and must swallow benefit cuts or tax increases to keep the system “in balance.” The “political risk” from privatization easily equals the “market risk” with respect to benefit guarantees.

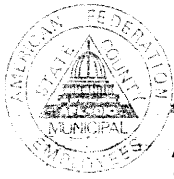
- *It is important to remember that the proverbial "pot of gold" may not be waiting at the end of the rainbow.* Advocates of privatization --either collective or individualized -- claim that stock market investment can “solve” Social Security’s funding problems over the next 75 years by yielding a higher rate of return than the current financing system. They base this argument on models that assume economic growth in the future similar to that of the past. That assumption is inconsistent with the Social Security Trustees’ projections that U.S. economic growth rate will decline from an average of roughly 3.5% over the past 75 years to 1.5% over the next 75 years. It is this questionable forecast that is used to suggest Social Security faces a funding problem beginning around 2032.

Privatization advocates cannot have their cake and eat it too. We cannot have both fast and slow economic growth in the same years. One set of projections must be wrong: Either there is no looming Social Security financing problem, or stock investments would exacerbate the problems, rather than be part of the solution.

- *The “rate of return” arguments advanced by privatization advocates are a red herring.* The issue goes deeper than whether Mutual Fund appreciation is higher than a Treasury bond yield. Rate of return in the context of a social insurance program like Social Security is more profoundly about our government’s role in income redistribution, and whether Social Security benefits should replace a higher portion of the pre-retirement income of low and middle-wage earners than it does for high income earners.

Social Security’s progressive benefit structure gives a superior “rate of return” to those in the bottom half of the income distribution, the same Americans who are likely to rely upon Social Security for almost all of their retirement income. This group would have nothing to gain in terms of “rate of return” from any version of Social Security privatization.

- *The 50,000 workers at the Social Security Administration, represented by AFGF, are the best in the business.* Private sector insurance companies and pension investment firms have administrative overhead averaging 40% ,while SSA’s overhead costs are just under 1% of benefits.



AFSCME

American Federation of State, County and Municipal Employees, AFL-CIO

1625 L Street, N.W., Washington, D.C. 20036-5687

Telephone (202) 429-1000

White House Conference on Social Security: AFSCME Viewpoint

The American Federation of State, County and Municipal Employees -- with over 1.5 million public employee and public retiree members -- believes that the Social Security system is our nation's greatest achievement for American workers. Rising from the financial instability of the '29 stock market crash and Great Depression, Social Security has provided basic income protection to millions of workers and their families for 60 years. Its disability, survivors and old age benefits keep more Americans out of poverty than all income-tested assistance programs combined.

There is no financial crisis in Social Security. Full benefits will be paid on time for another 35 years. The system will face a 25% shortfall after 2032, but we believe it is a manageable problem that can be solved with the right mix of benefit changes and revenue enhancers. Certainly, there is no need to dismantle or dramatically alter a system that continues to serve its constituents so well.

AF'SCME strongly opposes using any portion of the Social Security payroll tax to fund unreliable personal retirement investment accounts. Social Security was designed to protect American families from risk by providing *guaranteed* benefits and a secure *foundation* for retirement income. Introducing risk to such a system makes no sense at all. This is not to say that AFSCME frowns on personal investing for retirement. In fact, we've negotiated hundreds of workplace savings plans on behalf of our members and encourage them to participate by taking as much risk as they can afford.

But investing is a gamble. So, we urge our members not to gamble with their most basic income -- the money they need for food and shelter. For most Americans, turning over a portion of Social Security to private accounts means risking the food money. They can easily end up with lower returns than expected, or outlive their accounts.

Also, personal accounts schemes are very expensive. Providing promised payments to current beneficiaries while diverting payroll taxes to fund private accounts for younger workers would mean billions of dollars in new costs. These costs could only be met by big benefit cuts or big tax hikes. Clearly, every payroll-tax dollar that's diverted to private accounts is a dollar added to Social Security's eventual shortfall.

In most of the private accounts schemes already proposed, benefit cuts figure prominently. **AFSCME opposes these cuts, particularly raising the normal retirement age beyond current law** (which already provides for a gradual rise from 65 to 67 by 2027). Many of our older members work in physically strenuous jobs, such as sanitation and nursing. Many more are in poor health. But proposals to raise the retirement age to as high as 70 would require that they either stay on the job or take

significantly reduced Social Security benefits -- a decision that could destroy their health and quality of life. Millions of Americans would face this dilemma.

So, raising the normal retirement age would be both impractical and cruel. The same can be said for another often-heard Social Security proposal: mandatory coverage of state and local government workers. The history of this issue dates to 1935, when the original Act excluded all public employees from Social Security participation. The law has been gradually amended over the years, allowing public employee groups to join the system voluntarily. Today, 75% of state and local government workers participate in Social Security. Law requires that the other 25% be covered by employer-sponsored retirement systems, most of which are traditional defined-benefit pension plans.

While the vast majority of our members participate in Social Security and depend on its protection, **AFSCME strongly opposes mandatory coverage of public employees who work in jurisdictions that do not participate in Social Security -- even if the coverage would apply only to new hires.** Following are reasons we believe mandatory coverage is unnecessary, and would be harmful to our current and future members:

Public Workers already covered by pension plans: State and local government employees who are not in Social Security are covered under public pension plans that were designed to *replace* Social Security's basic retirement and disability protection and provide some additional pension benefits; they do not need another retirement system that would duplicate the coverage they have now. **Big expense for workers and employers:** Mandatory coverage would be a big expense for newly hired workers and their public employers. While private sector pension plans usually require no direct contribution from employees, employee contributions in these public plans average between 8 and 9% of pay; employer contributions average between 13 and 14%. Social Security payroll taxes of 6.2% for both worker and employer would be added to these amounts.

New tiers mean lower benefits: Faced with a mandate to contribute to Social Security, many public employers will attempt to reduce their costs by integrating their public retirement plans with the national system. This would force a restructuring of the plans for new hires and the establishment of separate tiers that would provide lower benefits to future retirees. **An opening for privatizers:** Since many legislators would like to replace traditional "defined benefit" public pension plans with risky "defined contribution" plans (aka personal *investment accounts*), restructuring retirement systems to accommodate Social Security would clearly add fuel to this fire. The fire could easily spread beyond these plans to endanger *all* state and local government pension plans.

Destabilizes pension plans for-current participants: If new hires are put into separate and restructured retirement plans, it would cut off new funding to the existing plans on which *current* workers and retirees depend. This would reduce investment capital and plan assets, threatening benefits for *current* participants. **Higher taxes:** If mandatory Social Security coverage requires governments to expend more resources on public pension plans, it could mean higher state and local taxes.

Not a good solution anyway. Bringing new state and local employees under Social Security won't solve the system's future shortfall. Estimates show it will extend the life of the Trust Fund *by only two years*. In the long run, it could actually lead to greater outlays for Social Security as new beneficiaries become eligible for benefits.



555 NEW JERSEY AVENUE, N.W.
WASHINGTON, DC 20001-2079
202-879-4400

SANDRA FELDMAN
PRESIDENT

EDWARD J. McELROY
SECRETARY-TREASURER

NAT LaCOUR
EXECUTIVE VICE PRESIDENT

**American Federation of Teachers
Statement
on
Social Security Reform**

Below are the principles adopted by the American Federation of Teachers which will guide our union in working to develop a program to assure the financial stability of the Social Security system for the next 75 years.

It is our strongly held belief that the maintenance of the Social Security benefit is essential to protect future beneficiaries as well as assuring future workers that reasonable benefits will be there for them when they retire.

For more than 60 years, Social Security has been the most successful and broadly supported federal government program providing basic living standards to thousands of our parents and grandparents, and raising many retiree households out of poverty.

Further, Social Security is one of the pillars of retirement income for American workers and provides guaranteed retirement, survivorship and disability protection to more than 44 million Americans at all stages of life.

Finally, the Board of Trustees of the Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund estimates that the Trust Funds will be solvent for the next 30 years, providing time to discuss and examine alternative solutions with deliberation and care.

The American Federation of Teachers believes that any proposed remedies should meet the following principles:

- **Consider solutions within the existing Social Security structure that maintain economic security for current and future generations by guaranteeing an inflation-adjusted retirement income that permits older family members to live in dignity and reduces the economic burden on younger family members of caring for their parents, grandparents, aunts, uncles, brothers and sisters.**
- **Provide universal insurance protections for dependent and surviving children and spouses of a deceased family wage earner as well as disabled and retired workers.**

- **Reject radical solutions, like using Social Security resources to finance private accounts that require significant reductions in guaranteed benefits or increases the retirement age.**
- **Maintain a larger share of past earnings for low-income workers, as in the present system, and continue to provide larger benefits to workers who earn higher wages during their careers.**
- **Support covered workers who expect to receive Social Security benefits after a career of work and non-covered workers by maintaining their anticipated non-Social Security benefits on which they base their employment decisions.**
- **Support President Clinton's proposal to use the federal budget surplus to strengthen the current Social Security system.**
- **Support pension coverage for all workers who do not have a pension and provide for adequate benefits and funding for workers with pension coverage**

Finally, there is a proposal that is of special concern to our union. That proposal is to mandate Social Security coverage for presently uncovered state and local employees. While this proposal sounds reasonable, it ignores the fact that on average both local governments and workers each contribute 8 percent of their wages to finance local retirement systems. Forcing each to pay an additional 6.2 percent for Social Security could lead to the dismantling of state retirement systems, placing in jeopardy the benefits of current state and local retirees as well as those of future state and local retirees. This proposal should not be considered.

AFT looks forward to working on a equitable Social Security reform package. Social Security is one of our greatest achievements as a nation, and it must be preserved.



American
Foundation
for the Blind

Governmental Relations Group
820 First Street, NE
Suite 400
Washington, DC 20002
Tel: 202.408.0200
Fax: 202.289.7880
E-mail: afbgov@afb.org

*Incorporated
in 1921*

**Statement of the
American Foundation for the Blind
to the
White House Conference on
Social Security
December 8, 1998**

The American Foundation for the Blind (AFB) is honored by the invitation to participate in the White House Conference on Social Security. We appreciate the opportunity to share our concern that any discussion of fundamental reform of the Social Security system must include a careful analysis of the impact of such reform proposals on Social Security disability programs.

The mission of the American Foundation for the Blind is to enable people who are blind or visually impaired to achieve equality of access and opportunity that will ensure freedom of choice in their lives. AFB fulfills this mission primarily by preparing and disseminating information resources, educating policymakers about the needs and capabilities of people who are blind or visually impaired, and advocating the development and implementation of sound public policy. A non-profit organization founded in 1921 and recognized as Helen Keller's cause in the United States, AFB is a leading national and international resource for blind individuals and the professionals who serve them.

Our nation is embarking on a historic debate about the future of Social Security. As we begin this discussion, it is vitally important to remember that Social Security has an impact on much more than retirement. Disability-related programs administered by the Social Security Administration (SSA), such as Social Security Disability Insurance (SSDI), serve as a safety net for more than eight million adults and children with disabilities, including hundreds of thousands of people who are blind or visually impaired. Any deliberations concerning the reengineering or reform of America's social insurance system, to be complete, must incorporate disability as a major theme.

From the Social Security program's earliest beginnings, AFB has worked tirelessly to strengthen the program's wage/income supports and healthcare protections. Most recently, AFB has led the field of blindness in advocating for improvements to the "work incentive" provisions in current

In keeping with our goal to achieve equality of information access for people who are blind or visually impaired, this document is available, upon request, in the following accessible formats: IBM computer diskette, braille, cassette, and large print.

law. We look forward to working with the President and the 106th Congress to achieve these legislative objectives.

Aside from the larger issues around solvency, a number of disability-related reforms should be explored. Many of SSA's customers with disabilities are calling for simplification of the impossibly complex web of disability program rules, fairness and consistency in the application of the rules, and elimination of those rules that penalize work. In particular, blind consumers are calling for an end to the "earnings cliff"--the loss of SSDI cash benefits and the ultimate loss of health care coverage merely by earning one dollar in wages above the prescribed limits. Congress should enact a gradual reduction in SSDI benefits as earnings increase. Such a reduction might look like the current scheme applicable to retirees age 62-64 who see a reduction of one dollar in Social Security benefits for every two dollars in earnings they make over the threshold. Enacting this change will eliminate the pernicious earnings cliff.

Additionally, Congress should eliminate the two-year waiting period for Medicare coverage imposed on SSDI beneficiaries and provide for extended Medicare coverage for those who return to work. Congress should also expand access to personal assistance services under Medicaid, such as attendant care, readers and personal assistance with transportation to-and-from work.

Finally, AFB remains committed to the principle of restoring the statutory linkage that once existed between blind SSDI beneficiaries and retirees age 65-69. Restoring this Social Security Act cross-reference would raise substantially the earnings limit applicable to beneficiaries who are blind.

AFB urges the President and Congress to move quickly to enact these much needed incentives to work. By enacting these changes, we will go a long way toward creating a social insurance program based on common sense and sound public policy. With a jobless rate among people who are blind remaining at approximately 74%, we need to craft public policy that provides people who are blind with the tools to achieve independence.

For **further** information, contact:

Mark Richert
Governmental Relations Representative
American Foundation for the Blind
Governmental Relations Group
820 First Street, N.E., Suite 400
Washington, DC 20002
202-408-8170
202-289-7880 Fax
mrichert@afb.net E-mail

UNDERSTANDING SOCIAL SECURITY: THE ISSUES AND ALTERNATIVES

The American Institute of Certified Public Accountants (AICPA) released, on the eve of the White House Summit on Social Security, a comprehensive, non-partisan analysis of the major options to reform Social Security in an effort to aid legislators in what is expected to be a complex and contentious debate in the 106th Congress. “It lends a cold, hard, objective eye to various reform options and their effects on all segments of the population – including widows, the very old and minorities,” said David A. Lifson, chair of the organization’s Tax Executive Committee.

“Decision makers need facts – not spin,” said Lifson. “Before Congress takes a position on the ‘right’ solution for Social Security reform, the AICPA strongly urges policymakers and the public to have a clear understanding of the issues.”

Some of the facts highlighted in the study, *Understanding Social Security: The Issues and Alternatives*, include:

- Social Security keeps the majority of Americans over 65 out of poverty; in fact, for 40 percent of America’s elderly, Social Security accounts for more than 75 percent of total income at retirement.
- About 90 percent of current retirees receive only \$750 per month, on average, from Social Security, and future retirees will likely receive even less.
- Serious pockets of poverty still exist for the elderly, and therefore there is a corresponding reliance on Social Security income. Older women are twice as likely as men to be in poverty and for both African Americans and Hispanic Americans, the elderly poverty rates hover at approximately 25 percent – about two and a half times larger than that for white Americans.
- The number of workers to every 1 beneficiary continues to decline. In 1960, the worker-to-beneficiary ratio was 8.6 to 1, currently it is 3.3 to 1 and is projected to be 2.2 to 1 in 2025.

“Reform will have a far-reaching effect on all Americans, and current and future beneficiaries must understand the implications of reform in order to reach a consensus, and to gain broad acceptance of a new system,” said Daryl Jackson, chair of the AICPA’s Social Security Task Force and invited participant to the White House Summit on Social Security, which is scheduled to begin in Washington on December 8. “That’s why this study is so important – it’s the definitive resource for the Social Security debate.”

Among the major issues examined in the AICPA’s study are:

- The Current Financial Condition of Social Security
- Social Security and Poverty in America
- Social Security and Individual Fairness (in terms of benefits and investments)
- Social Security and the National Economy
- Social Security and the Stock Market
- Options for Reform

AICPA
Page Two

The study takes an in-depth look at six major reform options including:

- The Maintenance of Benefits Proposals
- The Individual Accounts Proposal
- The Personal Security Account Proposal
- Feldstein-Samwick Personal Retirement Account Plan
- The Moynihan Social Security Solvency Act of 1998
- The 21st Century Retirement Security Plan

“With the aging of the Baby Boomers, time is no longer on our side,” said Jackson. “The debate about Social Security reform, adoption of new legislation, and an effective transition from the old to the new must happen in the near – not distant – future. The longer we delay, the more difficult and painful the solution will become.”

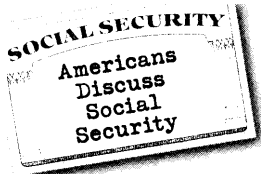
The AICPA collaborated over two years with a group of leading CPAs, tax specialists and economic analysts to develop the study.

The AICPA is the national professional association of CPAs with more than 330,000 members in public practice, business and industry, government and education. The AICPA is the first national professional membership association to be ISO 9001 certified in recognition of its quality management and assurance practices.

Summary Evaluation of Options for Reform

	Soundness: Improves Condition of Fund?	Money's Worth: Impact on Average Rate of Return?	Poverty: Degree of Redistribution to Low Incomes?	Growth: Probable Impact on Saving?	Growth: Probable Impact on Labor Supply?
I. Reduce benefits					
A. Across the board	Yes	Reduces	Less	More	More
B. Only for high-wage workers	Yes	Reduces	More	More	More
C. Increase retirement age	Yes	Reduces	Depends	More	More
II. Increase revenue					
A. Raise payroll tax rate	Yes	Reduces	Depends	More	Less
B. Raise ceiling on taxable earnings	Yes	Reduces	More	More	Less
III. Improve return on assets					
A. Invest trust fund in equities	Yes	Increases	No effect	No effect	No effect
B. Individual accounts	No effect	Increases	Less	Increases	More

Understanding Social Security: The Issues and Alternatives can be found on the AICPA's Internet website at www.aicpa.org/members/socsec.htm.



A project funded by The Pew Charitable Trusts

Americans Discuss Social Security

Over the past year, Americans Discuss Social Security (ADSS) has conducted a series of events intended to foster discussion and gauge public opinion on the question of Social Security reform. We have produced and distributed hundreds of thousands of copies of public education kits, discussion guides and videos to citizens across the country. Our engagement efforts have reached millions of Americans through teleconferences linking citizens in 15 states with each other and with decision-makers and policy experts in Washington, through forums in another 10 states and through a series of forums on college campuses across the nation. Additionally, ADSS has commissioned eight separate public opinion polls. The findings from all of these activities have been forwarded to Congress and the Administration.

This experience has yielded important lessons about how Americans feel about Social Security. They do care deeply about the program, but do not think that policymakers in Washington understand how people like themselves feel about changes to the program. They are willing to learn more about Social Security and the reform measures that have been proposed. Most important, they want their voices to be heard in the reform process.

The debate over Social Security reform often presents “stand alone” options for people to consider as measures to insure Social Security’s future solvency. One of them, for example, would raise or eliminate the current cap on income subject to the payroll tax (\$68,400 in 1998) -- a consistently popular option, even, somewhat surprisingly, among people with incomes exceeding \$60,000 per year. But, as the “year of national conversation” has progressed, it has become clear to most citizens that there is no single solution to the program’s future financial difficulties and that trade-offs are necessary. When put in this context, the public’s fundamental priorities become clearer.

A recent ADSS survey examined some of the tradeoffs people might be willing to make. Consider the proposal to raise the full-benefit age to 70. Three-quarters of Americans (74 percent) oppose this – including those between 18 and 49 years of age. Opposition decreases, however, when people are asked to choose between raising the full-benefit age and reducing benefit amounts. Then, 54 percent choose raising the eligibility age rather than cutting benefits.

The survey found that a majority (52 percent) supports the idea of allowing individuals to invest some of their payroll tax contributions themselves, in some form of “individual retirement account.” But, when forced to choose between individual accounts and the guarantee of an exact benefit, 61 percent choose the guarantee.

There is strong support (63 percent) for keeping the Social Security trust funds safe – even at the risk of a lower rate of return – rather than putting those funds in the stock market, where they might earn more. A majority (66 percent) of this group stay with their safekeeping position, even if doing so means that benefits for future retirees have to be cut; 71 percent of them would accept paying higher payroll taxes before seeing the trust funds invested in the stock market.

There have been no proposals by reformers to raise the payroll tax rate (currently 6.2 percent for both employer and employee) and, indeed, 54 percent of Americans oppose raising payroll taxes. But, when asked to choose between tax increases and future cuts in benefits, 55 percent accept the higher taxes.

The bottom line is that a majority of Americans attach importance to maintaining benefit levels, guaranteeing those benefits and keeping the trust funds safe from losing value, even if choosing these priorities means accepting unpleasant consequences. There is strong support for continuing Social Security's safety net for the elderly, to keep them out of poverty and to help them maintain their dignity in retirement. And, most Americans expect that all segments of society will have to make concessions to achieve the major changes they believe are needed to bolster Social Security

Americans' views on Social Security are deeply felt but not immutable. Views can and will change as people learn more about the program and the trade-offs. Policymakers may be able to reach bipartisan consensus on changes in the program, some of which may go against the grain of current public opinion. Public acceptance of even these changes can be achieved if Americans are informed and educated about them as the policy process proceeds. While this process will need to take place, at times, behind closed doors, the negotiators must keep their lines of communication open, to hear what the public is saying and to bring the public along with them as decisions are taken. If they proceed without appropriate public education, they do so at their own peril.

Carolyn J. Lukensmeyer, Executive Director

[Americans Discuss Social Security (ADSS) is a non-partisan effort funded by The Pew Charitable Trusts. Our mission is to engage Americans from all walks of life in a nationwide conversation about the future of Social Security so their views can influence policymakers as they shape its future. ADSS does not take any position on the issue.]



NATIONAL CONFERENCE OF STATE LEGISLATURES

The Forum for America's Ideas

**Statement of
Majority Leader Norma Anderson
Colorado House of Representatives, Senator-Elect, Colorado Senate
Co-Chair, NCSL Taskforce on Social Security Reform**

Mr. President, the White House Conference on Social Security begins an unprecedented opportunity for the nation to re-examine Social Security. State legislatures are willing to work with you to find solutions. The nation's state legislators feel very strongly about one aspect of Social Security reform, the extension of mandatory Social Security coverage to new state and local government employees. **NCSL vigorously opposes any efforts to extend mandatory coverage to additional groups of state and local government employees in any package to restore solvency and integrity to Social Security.**

The Social Security Act of 1935 specifically prohibited state and local government employees from coverage, in part, because state and local government retirement plans already provided retirement benefits to these employees. State and local government plans predate Social Security and provide comparable, and in many cases, superior benefits to public employees.

State and local government retirement systems effectively provide retirement and supplemental benefits, such as health care, to state and local employees and their families. **These systems effectively manage retirement funds on behalf of public employees and are models for effective private retirement savings that should be studied for best practices, not raided as a short term fix to extend social security for two years.** State and local employees earned these funds, contributed to these plans and in many cases bargained successfully for the range of retirement benefits offered by state and local government retirement systems. State and local employees with a proven commitment to personal savings should not be punished for their planning and initiative.

Many of those critical of state and local government retirement plans have claimed that mandatory coverage is "only fair." We disagree. **It is not fair to resolve the Social Security solvency problem at the expense of public employees who have saved and planned for their retirement in good faith and in partnership with their employers, state and local government.**

States would unfairly bear the cost of restoring solvency to Social Security as illustrated in the following table. In my own state of Colorado, there are well over 200,000 state and local government employees and retirees who are not covered by Social Security. Taking new hires out of our retirement systems would endanger the solvency of our retirement plans, putting retired public employees at risk of losing healthcare, cost of living increases and other benefits. State and local government employees did not create Social Security's insolvency problem. They must not shoulder the burden in reforming the system.

Estimated Social Security Coverage of Workers with State or Local Government Employment, 1992¹
Sorted by the Number of Workers Covered by State and Local Government Plans Only (Uncovered Workers)
 [based on 1-percent sample]

<i>State</i> ²	<i>Uncovered Workers</i>	<i>Covered Workers</i>	<i>All workers</i>	<i>% Covered</i>
California	1,129,000	1,069,000	2,198,000	49%
Ohio	739,000	61,000	800,000	8%
Texas	562,000	793,000	1,355,000	59%
Illinois	470,000	515,000	985,000	52%
Louisiana	282,000	114,000	396,000	29%
Massachusetts	279,000	46,000	325,000	14%
Colorado	208,000	122,000	330,000	37%
New York	120,000	1,553,000	1,673,000	93%
Georgia	119,000	461,000	580,000	79%
Michigan	116,000	674,000	790,000	85%
Kentucky	84,000	241,000	325,000	74%
Connecticut	81,000	174,000	255,000	68%
Florida	76,000	927,000	1,003,000	92%
Missouri	72,000	313,000	385,000	81%
Wisconsin	65,000	399,000	464,000	86%
Washington	63,000	374,000	437,000	86%
Nevada	61,000	32,000	93,000	34%
Maine	59,000	51,000	110,000	46%
Indiana	58,000	378,000	436,000	87%
Tennessee	56,000	353,000	409,000	86%
Pennsylvania	50,000	690,000	740,000	93%
Alaska	48,000	34,000	82,000	41%
North Carolina	47,000	532,000	579,000	92%
Virginia	47,000	471,000	518,000	91%
Maryland	39,000	357,000	396,000	90%
Alabama	36,000	324,000	360,000	90%
New Jersey	35,000	556,000	591,000	94%
New Mexico	30,000	145,000	175,000	83%
South Carolina	30,000	280,000	310,000	90%
Iowa	28,000	242,000	270,000	90%
Kansas	24,000	233,000	257,000	91%
Mississippi	20,000	202,000	222,000	91%
Arkansas	19,000	172,000	191,000	90%
Hawaii	19,000	88,000	107,000	82%
Oregon	18,000	246,000	264,000	93%
Utah	18,000	147,000	165,000	89%
Oklahoma	17,000	250,000	267,000	94%
Arizona	16,000	324,000	340,000	95%
Montana	16,000	77,000	93,000	83%
New Hampshire	14,000	74,000	88,000	84%
Nebraska	13,000	152,000	165,000	92%
Rhode Island	13,000	61,000	74,000	82%
Wyoming	10,000	56,000	66,000	85%
North Dakota	9,000	61,000	70,000	87%
West Virginia	9,000	145,000	154,000	94%
Delaware	5,000	60,000	65,000	92%
Idaho	5,000	108,000	113,000	96%
South Dakota	3,000	72,000	75,000	96%
Vermont	2,000	50,000	52,000	96%
Minnesota ³	-236,000	658,000	422,000	156%
Total for All States	5,102,000	15,518,000	20,620,000	75%

Source: 1998 Green Book (from the Office of Research and Statistics, Social Security Administration).

¹ Includes seasonal and part-time workers for whom State and local government employment was not their major job.

² Information not available for the District of Columbia, Puerto Rico, and the U.S. Territories.

³ Figures for Minnesota appear to have been transposed in the original table. They appear here as in the original table.

Prepared by the National Conference of State Legislatures (NCSL).

For more information, contact: Geni Madrid or Sheri Steisel at (202) 624-5400.

The Arc of the United States Governmental Affairs Office

1730 K Street, NW, Suite 1212
Washington, D.C. 20006-3868
(202) 785-3388 • FAX (202) 467-4179 • TDD (202) 785-3411
E-mail: arcga @ radix.net

PEOPLE WITH DISABILITIES HAVE A STAKE IN SOCIAL SECURITY REFORM

Old Age, Survivors, and Disability Insurance

A common myth is that Social Security is just for people who have retired. The public debate has centered almost exclusively on Social Security retirement. However, the impact that any Social Security reform might have on the disability insurance program and the protections for survivors and dependents must also be included in any discussions concerning the future of Social Security.

People with disabilities believe it is critical to remember that the Title II old age (retirement), survivors, and disability insurance programs **are insurance programs**, earned through payment of FICA taxes, designed to remove risk from certain life events for the individual. They insure against poverty in retirement years; they insure against disability limiting a person's ability to work; and they insure dependents and survivors of workers who become disabled, retire, or die by providing a basic safety net. While retirement years can be anticipated, disability can affect any individuals and families unexpectedly at any time.

People with disabilities benefit from the Title II trust funds under several categories of assistance. Those categories include:

- disabled workers, based on their own work histories, and their dependents;
- retirees with benefits based on their own work histories;
- adult disabled children of disabled workers;
- adult disabled children of retirees; and
- adult disabled children who are survivors of deceased workers or retirees.

In fact, more than one-third of all Social Security benefits are paid to non-retirees: people with disabilities, children, and widow(er)s. For the average wage earner with a family, Social Security insurance benefits are equivalent to a \$300,000 life insurance policy or a \$200,000 disability insurance policy.

Beneficiaries with disabilities depend on Social Security for a significant proportion of their income. About 21 percent of beneficiaries with disabilities live in poverty, compared with rates of 13 to 15 percent for the general population in the early 1990s. The recently conducted National Organization on Disability - Harris Poll revealed significant data on employment of people with disabilities: 71 percent of working age people with disabilities are not employed, as compared to 21 percent of the non-disabled population. The capacity of beneficiaries with disabilities to work and to save for the future and the reality of their higher rates of poverty must be taken into consideration in any efforts to change the Title II programs.



*a national organization
on mental retardation*

formerly Association for
Retarded Citizens of the United States

Privatization Proposals

Privatization of the Social Security trust funds would shift the risks that are currently insured against in Title II from the federal government back to the individual. This could have a devastating impact on people with disabilities and their families as they try to plan for the future. The basic safety nets of retirement, survivors, and disability insurance would be substantially limited and individuals, including those with limited decision-making capacity, would be at the mercy of fluctuations in the financial markets. (Some policymakers have suggested that the federal government should take the responsibility of investing a portion of the retirement and disability trust funds in the private market with careful controls on decision-making. Since this proposal would not shift investment risk to individuals, we do not consider this “privatization” and have not opposed such investment.)

In addition, many proposals to address the very high transition costs associated with privatization would negatively affect the disability programs. Some of the proposals would make drastic cuts in benefits in the disability insurance program and significantly reduce, if not eliminate, the value of protections for the dependents and survivors of covered workers. Other proposals simply do not address the disability programs and seem to ignore the impact of other changes on people with disabilities, such as changes in the benefit formula.

Proposals to Reform Social Security

As discussions move forward, regardless of the proposal, people with disabilities must be included in analysis of the impact. It is imperative that policymakers ensure:

- Meaningful inclusion of people with disabilities and their families in discussions about the solutions to the Social Security Trust Funds projected shortfall.
- Preservation of the guarantees inherent in the disability insurance program and the protections for survivors and dependents in the Old Age, Survivors, and Disability Insurance programs of Title II of the Social Security Act.
- Protection of the integrity of the benefits provided (benefits must be at a reasonable level for support) and protection of the value of benefits (benefits must be indexed for inflation to protect their buying power).

Other Concerns

Finally, people with disabilities are concerned that the Supplemental Security Income program could potentially be affected by whatever actions are taken regarding the Title II benefit programs. For example, if there were reductions in benefits for retirees and people with disabilities, under current law, the SSI program would have to step in to support many of those who are forced further into poverty. We urge great caution in changes which might affect the SSI program

December 1998

Contact: Marty Ford, The Arc of the United States, (202) 785-3388

NOTE: This statement also reflects the position of the **Consortium for Citizens with Disabilities** Task Force on Social Security. Approximately 100 national organizations participate in CCD; 45 national organizations participate in the CCD Social Security Task Force.

Social Security Plus

ROBERT M. BALL

This plan accomplishes two goals.

It restores Social Security to long-term balance, and it establishes a simple, effective way for individuals to set up savings accounts supplemental to Social Security.

Part I: Steps to restore Social Security to long-term balance

(1) *Leverage the funds* being paid into Social Security by workers, employers, and taxpaying beneficiaries by building an earnings reserve beyond what is needed for a pay-as-you-go system and investing part of the accumulating funds in private equities in a manner similar to that of other public and private pension plans. Under this approach, a contingency reserve sufficient to pay benefits for approximately one year would be invested solely in long-term Treasury bonds. Up to 50 percent of total accumulated funds would be invested (phased in between 2000 and 2014) in broadly indexed equities funds. A Federal Reserve-type board with long and staggered terms would have the limited functions of selecting the index and the portfolio managers and reporting to the nation on the overall operations of the plan. Social Security would not be allowed to vote any stock or in any other way influence the policies or practices of any company or industry whose stocks are included in the index. The increased revenues from investing part of Social Security's accumulated funds in equities would reduce Social Security's estimated long-term (75-year) deficit by more than half, from 2.19 percent of payroll to about 0.97 percent of payroll.

(2) *Modify Cost-of-Living Adjustments* to reflect (a) announced or anticipated corrections to the Consumer Price Index (CPI) by the Bureau of Labor Statistics and (b) more frequent pricing of the CPI market basket. These changes reduce the long-term deficit by up to 0.45 percent of payroll.

(3) *Make the program universal* by covering new hires in all state and local government jobs effective 10 years after enactment of Federal legislation. (About three-fourths of state and local jobs are now covered.) This change reduces the long-term deficit by about 0.18 percent of payroll.

(4) *Increase the maximum amount of annual earnings* subject to Social Security tax and credited for benefits by 5 percent per year from 2000 through 2010 beyond the increase that would occur automatically under present law, thus raising the portion of taxable wages from 85 percent of payrolls in covered employment to the traditional 90-percent goal. This change reduces the long-term deficit by about 0.58 percent of payroll.

These four changes entirely eliminate the estimated long-term deficit of 2.19 percent of payroll, producing a small positive balance of 0.06 percent of payroll.

Because it allows the trust fund to continue building and invests up to 50 percent of the build-up in private equities, earning greater returns than if invested solely in long-term Treasury obligations as required by present law, this plan in contrast to others is able to eliminate the deficit without benefit cuts or increased taxation of Social Security benefits, and without any tax rate increase (although the maximum taxable earnings base is raised).

Proposed Steps to Restore Social Security to Long-Term Balance

Expressed as a Percent of Payroll

(Long-term deficit is assumed to be 2.19% of payroll, per Trustees' 1998 estimate)

<i>Proposed change:</i>	<i>Reduces deficit:</i>
1 Invest part of Social Security's accumulating funds in stocks	- 1.22
2 Adjust COLA per BLS corrections to CPI plus more frequent market-basket pricing	- 0.45
3 After 10 years, cover new hires in state and local government jobs	-0.18
4 Increase maximum earnings base to include 90% of covered payrolls	- 0.58
Actuarial balance remaining after implementing all four changes:	+0.06*

* Adjusted for interaction of changes

Source: 1998 Trustees' Report and Office of the Actuary, Social Security Administration

Part II: Establishing individual supplemental savings accounts through Social Security

This plan' provides a convenient and efficient way for wage-earners to add voluntary savings to Social Security, with their funds partially invested in the stock market, and without significant additional administrative costs or burdens for employers or government.

Beginning in 2000, wage-earners could have employers deduct and forward up to 2% of the earnings covered by the Social Security maximum earnings base. The additional savings would be invested in the same way as Social Security's portfolio under this plan — 50% in stocks and 50% in Treasury bonds. Each year, when Social Security reports to all workers over age 25 on the estimated benefits they may expect (as required by the Moynihan amendment), Social Security would also report on the amounts accumulating in the individual's supplemental savings plan, and would remind workers of the availability of this convenient way to accumulate supplemental savings to help improve their economic situation in retirement or disability or to improve their survivors' protection in the event of death. For the first time, workers in small companies and lower-paid workers in general would have a real opportunity to build conveniently on top of their assured Social Security benefits and to participate in ownership of equities should they wish to do so. Accumulated savings could be distributed, upon eligibility for Social Security benefits, as an annuity, a lump sum, or in periodic installments. At death any undistributed amount would be part of the worker's estate. Rules governing tax status, early withdrawal, etc., would follow IRA rules.

The essential principle of this plan, which can be expected to increase voluntary savings above the present national level, is that Social Security is in no way diminished to make room for a system of individual savings accounts. The individual accounts are entirely voluntary supplements — logical add-ons to a fully financed Social Security system providing a defined, assured basic benefit.

For more information, contact: Robert M. Ball, 72 17 Park Terrace Drive, Alexandria VA 22307
tel: 703-768-3438 / fax: 703-768-4744

ECONOMIC SECURITY

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1522 K STREET, N.W.
SUITE 634
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TEL 202/408-5556
FAX 202/408-5352

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SUITE 300
NEW CASTLE, DE 19720
TEL 302/323-9116
FAX 302/323-9679

205 EAST 42ND STREET
SUITE 1914
NEW YORK, NY 10017
TEL 212/983-2390
FAX 212/983-2394

www.economicsecurity2000.org
www.march.org

Hillary Beard, Executive Director, Economic Security 2000:

Economic Security 2000 is the first non-partisan grassroots group dedicated to reforming Social Security. Our grassroots role was inspired in 1995 by U.S. Senators Bob Kerrey and Alan Simpson when they told us Congress would not act until 15 to 20 million Americans say, "Mr. President: Act immediately to save Social Security, and let me own a piece of my payroll taxes."

That is our crusade – to educate and provide a means for activism. Our goal is to open savings and security to all Americans.

Our staff and volunteers represent many ages, races and politics. They work tirelessly, because they believe individual accounts provide the best answer to fixing Social Security. Not one amongst them who believes the safety net can be jeopardized. Not one believes that risk should be part of Social Security reform. Not one does not fight for the concept that all Americans should have better retirement security and should be cut back into the American dream by owning wealth. I asked a few of our volunteers and staff members to write a about what they do and why. They wrote much more, so I have taken nuggets from each, to give a sense of what they do and what they hear.

Carolyn Cox, 60's, Retiree, Colorado: There is no average week in grassroots work. We work parades, fairs, service clubs, schools and senior centers to add new activists and educate. We write letters-to-the-editor and Op-Eds, refuting bad information and reinforcing that workers should own personal retirement accounts. We talk about Social Security with everyone we meet, seeking new ways to educate.

Hilary Wehner, 20's, Regional Field Director (RFD), Northeast: After long hours reaching out to schoolchildren, local service organizations and all who listen to radio and television, I lay my head down at night knowing that when real reform comes, it will be based on knowledge and the full involvement of the American people.

Damon Elder, 20's, RFD, California: Social Security reform appeals to patriotism over partisanship and is called for from all sides of the political spectrum. Our job is to increase the volume of the cry for substantive reform, and to mute the demagogic attacks of those whose love is for political gamesmanship rather than for America.

Paul Pomeroy, 20's, RFD, Mid-Atlantic: Whether making a presentation, working with interest groups, or leveraging activists, I start each week with one basic question: What am I going to do in the next seven days to save Social Security?

Mike Marshall, 30's, ES 2000 Field Director and Chairman, U.S. Jaycees, Midwest: Many say young Americans don't care. Not true. They just don't feel they have a voice. ES 2000 and the Jaycees create ways, like the Billion Byte March using email, to involve the young.

Cynthia di Lorenzi, 40's, Single Mother & Volunteer, Texas: I work on behalf of my children and for those who feel they have no voice. Never have I participated in a greater opportunity to help all Americans and the nation! Looking back, Social Security lifted millions out of poverty. Looking forward, individual accounts are required to continue that legacy. Through grassroots, I can reach out to those who feel most disenfranchised.

Eaddy Roe, 30's, RFD, Southeast: Seniors look for workable solutions, too. The proof is in the details, and many like the details of individual accounts. I have met too many who receive Social Security of under \$500/month. They have nothing else. They worry about their children and grandchildren. From a 75-year old, "My son is self-employed, and he pays 15% just for himself. You young people need to get involved."

Rob Crowther (30's)/Ben Glover(20's), Volunteers, Northwest: Students get involved when we take the time to explain Social Security. When they do, the whole student body can too, as is happening at Seattle Pacific University. There, professors send classes to ES 2000 events; publications write stories; students talk to faculty, friends and family.

Billye Hansen, 50s, Volunteer, Oklahoma: I work on this so my grandchildren will not be faced with huge debt. As we approach Oklahomans about the Billion Byte March, we found approximately 98% favor some form of individualized Social Security savings.

A. Silver, 40's, RFD, New York: Half of all black men die before 65. They "save" through Social Security, but get nothing back. When you show how individual accounts allow minorities to own equity to leave to their children, they get excited. Still, few bother to educate low-income. When talking with low-income workers, so many say, "I want to own and invest my Social Security."

My Conclusion: As for me, I constantly am asked, "Why are you working to reform Social Security?" I am a 25-year old female Democrat. According to Washington wisdom, I should hate personal retirement accounts. Instead, I believe personal retirement accounts will benefit those Americans who have neither economic nor retirement security.

The political rhetoric makes me furious. Often, partisans use alarming technical questions to bolster their point of view, rather than solve problems. Investment risks, administrative costs, and transition costs all can be addressed. Management goals can be achieved through what Franklin Roosevelt called "bold, persistent experimentation."

Examine the \$1 0,000/year worker – an income increasingly prevalent since middle-income manufacturing jobs at \$35,000-\$40,000/year are scarcer. At \$10,000, workers pay \$1,240 a year to Social Security. That is more than 60% of American families own in total savings. This \$1,240/year payroll tax can help open meaningful savings. Workers understand this. An AFL-CIO poll shows their members are in favor of owning individual accounts. Support only drops off when the next question is, "Do you favor individual accounts if your taxes will go up or if benefits are cut?" This question is disingenuous. We need to be creative enough to not raise taxes or cut the below-average income safety net in the process of creating individual accounts. Adding individual accounts to Social Security is bold and uncertain. One certainty is that Social Security the old way undermines the system's goals.

Most of us share a common goal. The basic question each Social Security reformer should ask is this: If we had no Social Security in 1998 and were trying to create a system, what would the goals be and how would we achieve them? I don't think anyone would create a pay-as-you-go system. And I do think we would find a system in which the money workers earned themselves would be put to work for their own retirement.

ECONOMIC SECURITY

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Creating a Nation of Savers

WHITE HOUSE SOCIAL SECURITY SUMMIT Sam Beard, President Economic Security 2000

Thank you very much for inviting me to participate in the White House Summit. I've had the privilege of founding and chairing economic development programs in poor urban and rural communities for four United States Presidents which have resulted in over \$25 billion of investment, and I try to bring this expertise to bear on Social Security reform. Economic Security 2000 is a non-profit grassroots organization that has chapters in 41 states and 88 cities. For over five years, we have made four basic points.

- First, Social Security is the best and most vital federal program. **In every case we need to retain every penny of the Roosevelt contract of protection and the safety net.** This includes **disability insurance and survivors benefits. All safety net aspects of Social Security are not negotiable.** For low-income families, most Social Security payments are too low. Thanks to Social Security, seniors living in poverty have been reduced from 35 to 10.8 percent, but let's commit ourselves to reduce seniors living in poverty to zero.

- **Second, the pay-as-you-go system as set up in 1935 is outdated and needs to be updated with a funded system with individually owned savings accounts invested in the private sector.** With changing demographics, once the Baby Boomers retire, there will only be two workers asked to finance one senior. This ratio no longer works without excessive tax rates. One third of all women born today can expect to live to over one hundred.

- **Third, the Social Security dialogue misses two key issues.**

#1. Retirement insecurity. President Roosevelt talked about retirement security as a three-legged stool. Leg 1 is savings. Leg 2 is a pension. Leg 3 is Social Security, which was never meant to be more than a safety net. 60 percent of American families have limited or no savings or a pension. We need to restore Legs One and Two.

#2. The increasing wealth and income gap between the rich and the poor. On our current course, we are becoming two separate societies, which places the American Dream at risk for up to 60 percent of American families. One third of all income comes from savings and wealth, and the bottom half of American families own less than 2 percent. After a lifetime of work, half of all African-American and Hispanic families do not own a dime.

Participation in the American Dream requires capital. The door openers to opportunity include higher education, home ownership, business ownership, and retirement security. The opportunity lies in savings and compound interest.

- Fourth, we outline the fast-expanding American and international financial markets, which exceed \$45 trillion today and will double early in the next century.

*** In 1985, 56 nations had securities markets with a total capitalization of \$6.5 trillion. Today, there are close to 200 stock markets in the world valued at nearly \$45 trillion.**

*** In 1980, 4.6 million households in America owned mutual funds - with total assets of \$716 billion. Today, 37 million Americans invest \$4.5 trillion in mutual funds. Soon the total assets of mutual funds will exceed the assets of all U.S. commercial banks. In 1998, the financial assets held by Americans for the first time passed the value of home ownership.**

What are our suggested solutions? As we are on the threshold of the **2^{1st}** Century, we are entering “The Equity Age.” **Let’s allow all Americans to benefit from the power of compound interest and own a share America’s economic growth over the next century.** One choice is to shape our answers using 193 5 ideas, or we can use 203 5 ideas. As we entered the 20th Century, we entered “The Industrial Age.” The symbols of “The Industrial Age” are mass production and assembly lines and Henry Ford’s Model T and his \$5 per day wage. This led to the “democratization of wages” and opened the purchasing power and dreams of the middle class. As we head to the **2^{1st}** Century, let us democratize the ownership of wealth and savings and usher in “The Equity Age.”

Through Social Security, retain its progressivity and allow all Americans to set aside \$500 per year, preferably \$1,000 per year, into an account they own invested in the private sector. In a working lifetime, this can accumulate \$150,000 (today’s \$ constant.) Set aside \$2,000 per year, and you can accumulate over \$300,000 - the financial assets of today’s 95th percentile richest American.

The second vehicle to open equity accumulation for all is Kid Save. The original Kid Save sets aside \$1,000 for every American at birth, and adds \$500 per year for the first five years. This money is invested and grows for 18 years. At age 18, each American then has a nest egg of an estimated \$30,000 to \$50,000 for higher education, home ownership or business ownership. The money can be retained for retirement security or used as a second source of income.

Some people talk of encouraging voluntary savings. **I favor voluntary savings, but 75 percent of American families earn \$50,000 or less. They are living from paycheck to paycheck and have a difficult time paying their monthly bills. There is no surplus income for savings.**

Save every penny of the Roosevelt contract and the floor of protection. Save “Security.” But add individual funded accounts. Broaden the debate. Let’s democratize the opportunity for wealth accumulation and embrace “The Equity Age.”

NATIONAL COMMISSION ON **RETIREMENT** POLICY

ENSURING RETIREMENT SECURITY IN THE 21st CENTURY

Statement of Bradley D. Belt

CSIS Vice President

Executive Director, CSIS National Commission on Retirement Policy

White House Social Security Conference

December 8, 1998

The National Commission on Retirement Policy (NCRP), a blue-ribbon panel of key members of Congress from both parties, business leaders, and policy experts convened by the Center for Strategic and International Studies, earlier this year released its bipartisan 21st Century Retirement Security Plan. This benchmark proposal would modernize the Social Security system while strengthening the private pension system and enhancing personal saving opportunities. It would ensure the solvency of Social Security without raising taxes.

The centerpiece of the plan is the establishment of individual security accounts, which would be funded by diverting 2 percent of current payroll taxes into individually owned, collectively managed accounts. Modeled on the successful Thrift Savings Plan for federal employees, participants would be able to invest in three broadly based index funds--an equity fund, a fixed-income fund, and a government securities fund--depending on their individual investment objectives and risk tolerance.

Restructuring the Social Security system in this way would give Americans greater control over their own financial destinies and would enable them to achieve higher rates of return on their Social Security contributions. In fact, a new CRS Report finds that the NCRP plan not only would ensure the long-term solvency of the Social Security system, it would provide substantially higher benefits than the current system (on a funded basis) or alternative plans, such as those that would have Social Security directly invest funds in the stock market.

Unfortunately, there are those who want to make political hay out of Social Security rather than save it. They would deny average Americans the opportunity to accumulate real wealth and break the cycle of dependency on government. They want to confuse rather than inform, by making spurious arguments against individual accounts.

One such criticism is that it is too risky to invest Social Security in the stock market. This is a canard for several reasons. First, the current system is risky. Benefits aren't guaranteed and can be reduced or taken away by legislative fiat. Second, investing strictly in treasury bills may be safe, but earnings likely will be insufficient to meet retirement needs. Also, market risk is spread over a person's career. There is no 40-year period in American history in which equities have not substantially outperformed treasury securities. But under the NCRP plan, those who are risk-averse can put their money in bonds or treasury bill funds. Moreover, because the funds would be collectively managed, selling abuses by brokers, a concern expressed by SEC Chairman Levitt, would not be an issue. Most importantly, the proposal would strengthen the safety net for the most vulnerable in our society by offering at least a poverty-level benefit to career workers.



The NCRP proposal to gradually raise the eligibility age for full Social Security benefits is another favorite target of critics. This is necessary to reign in costs and is sound public policy because it reflects the fact that people are leading longer lives. When Social Security was created, the average life expectancy was just 63 years. The average worker was expected to die before he or she could collect a dime. Average lifespans are expected to be about 80 years in 2030, so an indexed adjustment would suggest a normal retirement age of 83.

The most specious argument is that a system of accounts for 140 million workers is too administratively complex to implement. There are legitimate issues as to what is the most effective and efficient system that imposes the fewest burdens on employers and participants. But to suggest that it can't be done is, frankly, ridiculous. A bit of historical perspective is in order. When Social Security was created in the 1930s for the then 40 million workers, the only tools available to designers were pencil, paper, adding machines, and the mails. They had no model to follow. Today we have powerful computers, advanced telecommunications, and a variety of tested models for guidance. As noted, the NCRP plan is based upon the Thrift Savings Plan for federal employees. The TSP costs are less than ten basis points. We can make this work. And we should.

Under the leadership of Sens. Judd Gregg (R-N.H.) and John Breaux (D-La.), Reps. Jim Kolbe (R-Ariz.) and Charles Stenholm (D-Tex.); Donald B. Marron, chairman of PaineWebber; and Dr. Charles Sanders, retired chairman of Glaxo, the commission achieved what is most needed as Washington puts retirement security at the top of the agenda in 1999: a fiscally responsible, practically achievable and politically viable plan to address the retirement financing challenges each American faces.



Executive Office
P.O. Box 942701
Sacramento, CA 94229-270 1
(916)

**Statement of James E. Burton
Chief Executive Officer
California Public Employees' Retirement System
White House Conference on Social Security
December 8, 1998**

The Administration is considering – and several bills include – mandatory Social Security coverage of newly hired public employees and their employers. We understand that this is part of an overall program reform.

The General Accounting Office says the revenue from this specific “reform” will support the Social Security program for only 2 of the program’s 75-year horizon. The issue, the advocates say, is simply a matter of “fairness,” that the Social Security program should be “universal.” “Fairness” is in the eyes of the beholder. It is an anomaly that those who – in other forums – advocate greater attention to public education and law enforcement would, in the name of “fairness,” take funds from State and local agencies responsible for those same public services.

It is important to remember that the Social Security Act of 1935 did not establish a “universal” program. State and local governments and their workers were initially specifically and intentionally excluded. Because of this, those State and local governments that had not already established their own retirement systems did so. Years later they were given the option to join Social Security voluntarily. This new proposal would have the effect of penalizing those local governments that took responsibility for their own employees by establishing their own retirement systems.

The proposal would likely be funded immediately by a mix of reduced public services, higher fees, and reductions in salaries and other benefits paid to the affected public workers. Newly hired workers and their employers could ill afford paying both Social Security taxes and contributions to their long-standing public employee retirement systems. As a result, these established retirement systems – systems that have helped build America’s capital structure over the past five decades – would experience reduced new cash flow.

Over the long term – 10 to 12 years from enactment of the proposal – even fully funded public employee retirement systems would be forced to begin preserving cash to fulfill their contractual obligations to send monthly retirement checks to shrinking numbers of beneficiaries over decades.

In most State and local jurisdictions, retirement benefits become part of the employee’s vested contract rights upon employment. When conflicting financial obligations are imposed upon the governmental employer, that employer must look to other options – raising taxes or decreasing services or non-vested benefits – to pay for these pension obligations. Health benefits which are generally not vested rights are likely to become one of the first casualties of the out-year impact of mandatory coverage.

There would be statewide impact in California, Alaska, Colorado, Connecticut, Illinois, Kentucky, Louisiana, Massachusetts, Missouri, Nevada, Ohio and Texas. There would be localized impact in places such as Baltimore, Phoenix and Tucson, Miami and Tampa, Winston-Salem, Memphis, and elsewhere. Nationwide, there are an estimated five million public workers currently not covered by Social Security.

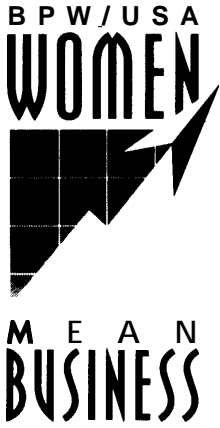
In California, there are more than 1,800 public agencies currently employing about 750,000 employees – most of them teachers – not covered by Social Security.

The proposal to compel 688 California counties, cities and special districts and their newly hired workers to become a part of Social Security would require them to remit \$5.5 billion over 10 years. This would be offset by reduced services to senior citizens and the disabled; and for libraries, refuse collection, recycling and parks and recreation; and perhaps even public safety.

The State's 1,026 school districts, 71 community college districts and 58 county offices of education, would be forced to pay billions of dollars. It is estimated that new costs would equal 7 percent of the \$16 billion current annual teacher payroll or a cumulative \$11.2 billion over 10 years – \$11.2 billion that would otherwise be spent on new teachers to meet new reduced classroom size requirements; books for the children; and long-delayed school building maintenance.

At a time when State and local governments are being asked to do more with less, unfunded mandatory Social Security would exacerbate fiscal problems by adding enormous and complex labor issues. Newly hired employees would be required to receive lesser benefits than existing workers – maybe even lower pay. The negative impact on labor relations, recruitment and employee morale would be significant.

Devastating reductions of local public services, sharp cutbacks in education and jeopardy to existing public pension systems are very, very high prices to pay for a short-term, two-year fix for the Social Security program.



Business and Professional Women/USA

2012 Massachusetts Avenue, NW
Washington, DC 20036
Tel: 202/293- 1100, Fax: 202/861-0298

Women Are Central to Social Security Reform Debate

Business and Professional Women/USA (BPW/USA) is the leading advocate for working women. BPW/USA represents 70,000 working women across the country in more than 2,000 local organizations nationwide.

BPW/USA's stake in Social Security reform stems from our concern about the prevalence of poverty among women in their senior years. Women live longer than men, earn less and are more likely to be dependent on Social Security for most or all of their retirement income. Thus, working women have a significant stake in the reform options currently being considered. Their voice will be crucial to building the coalition necessary to enact reform legislation.

Several factors contribute to women's vulnerability to economic insecurity in old age. A lifetime of lower wages due to the wage gap between the earnings of men and women translates into significantly less money in retirement. The U.S. Census Bureau estimates the wage gap between the earnings of men and women to be 26%. This means that women are earning on average only 74 cents for every dollar a man is paid. For African-American or Hispanic women, the wage gap is even wider.

Women remain disproportionately represented in lower-paid, female-dominated occupations. Women are much more likely to leave the workforce and three times as likely to work part-time to accommodate care-giving responsibilities. Lower earnings mean lower Social Security benefits and lower pension checks-if women are lucky enough to have pensions at all. The result is a life of poverty for far too many women in their senior years. Compounding the problem is the fact that the average woman lives seven years longer than their male counterparts.

Three out of four working women earn less than \$23,000 annually. Even a disciplined saver will have trouble accumulating much in savings at that level. Thus they are more likely to be dependent on Social Security for more if not all of their retirement income.

In addition, most women don't even have a pension, regardless of its size. Women are more likely to be working in low-wage, service, part-time jobs and/or to work for small businesses-where pension coverage is the most sparse. Although about 48 percent of full-time female workers have some form of pension coverage, a majority still do not. And only 39 percent of all female-full and part-time-workers are covered.

Business and Professional Women/USA

20 12 Massachusetts Ave NW
Washington, DC 20036
202.293.1100
Fax: 202.86 1.0298

The
Leading
Advocate
for
Working
Women

Clearly, there has been some progress in expanding pension coverage. However, that progress has been undermined by ongoing structural barriers and by the overall shift away from defined benefit, or “basic pension” plans to do-it-yourself, defined contribution plans like 401(k)s. Again, lower wages mean that women have fewer dollars to invest for their retirement. And again, Social Security becomes even more important.

The size of a beneficiary’s benefits is based on the amount of contributions made by the worker. This is fair as long as women are paid what they are worth. Any reforms that address Social Security solvency must consider the economic reality for today’s working women.

BPW/USA, working in coalition with the National Council of Women’s Organizations, will participate in the public dialogue on Social Security and will assess each reform proposal based on its impact on women—the majority of Social Security recipients. BPW/USA has endorsed the National Council of Women’s Organization’s Social Security Check List to evaluate each reform proposal.

Women’s Checklist on Social Security Reform

Does each reform proposal:

_____ *Continue to help those with lower lifetime earnings, who are disproportionately women?*

_____ *Maintain full cost of living adjustments?*

_____ *Protect and strengthen benefits for wives, widows and divorced women?*

_____ *Preserve disability and survivor benefits?*

_____ *Protect the most disadvantaged workers from ‘across the board’ benefit cuts?*

_____ *Ensure that women’s guaranteed benefits are not reduced by individual account plans that are subject to the uncertainties of the stock market?*

_____ *Address the care giving and labor-force experiences of women?*

_____ *Further reduce the number of elderly women living in poverty?*

BPW/USA has had a long-standing interest in retirement security issues and Social Security reform. BPW/USA is working not only to effect change on Capitol Hill, but also to educate BPW/USA members about the importance of retirement planning and working with organizations like the Women’s Institute for a Secure Retirement (WISER), to ensure a safe retirement for all Americans. In February 1999, BPW/USA is hosting a conference in Washington, DC, which will bring together several hundred working women to focus on the various Social Security reform options, particularly how they will impact women. Our goal is to empower these women to become active in the Social Security debate by encouraging them to hold Social Security forums in communities across the nation.

Business and Professional Women/USA (BPW/USA) includes 70,000 members and more than 2,000 local organizations nationwide. BPW/USA’s mission is to achieve equity for all women in the workplace through advocacy, education and information.

**WHY SOCIAL SECURITY INDIVIDUAL ACCOUNTS (SSIA) CANNOT BE MODELLED
AFTER THE FEDERAL THRIFT SAVINGS PLAN (TSP) OR OTHER LARGE 401(K)-TYPE PLANS'**

1. The TSP is an employer-based plan. Like other large 401(k)-type plans, the TSP is sponsored and implemented by employers with the personnel, payroll, and systems staffs needed to support highly complex electronic record keeping, investment, educational, and communications operations. The Thrift Investment Board is a wholesaler of financial services. It is the employing agencies that handle the retail operations and the essential face-to-face counselling services. Such functions could not be performed by the 6.5 million employers now paying Social Security taxes. Most private employers have less than ten employees and little support staff. Over eighty percent of private employers are now reporting to the Social Security Administration on paper, a highly inefficient and error-prone operation.

2. The TYP is voluntary. Proposed SSIA's would be mandatory on the employee or the employer. Thus, SSIA's would be beset with very costly compliance problems not faced by TSP, 401(k)s, or the present Social Security system. While many employers do not comply with the present requirement to pay Social Security taxes, their employees do not lose Social Security benefits so long as their employment is verified. But failure to make timely contributions to SSIA's would reduce SSIA balances and investment income.

3. The TSP is for a relatively high income, educated and stable work force, Social Security workers' are relatively low income, uneducated, and include many temporary and part-time employees. Forty-six percent of Social Security workers earn less than \$15,000 a year. Seventy-five percent of households with incomes from \$10,000 to \$25,000 have no direct or indirect stock investments. Essential investment and other counselling services, perhaps provided by the private sector, for this population would be very costly.

A SSIA deposit of two percent of an average wage of, say, \$20,000 would produce contributions to the account of just \$400 in the first year. The average annual cost of servicing a 401(k) account is estimated to be at least \$100, based on the three government and private studies discussed in the November 1998 report of the Employee Benefit Research Institute. (Current private sector servicing costs actually run up to \$300 a year per employee for 401(k) plans with less than ten employees.) SSIA servicing costs would be much higher, as noted above. So the expense ratio in the first year would be much higher than 25 percent, or 2500 basis points (compared to the current TSP expense ratio of just 6 basis points), which would obviously be much higher than the estimated rate of return on investments. As account balances

1 Mr. Cavanaugh was the first Executive Director and CEO of the Federal Retirement Thrift Investment Board (1986-1994), which administers the TSP for Federal employees. Before that, he served in the U. S. Treasury (1954-1986) as an economist and as the senior career executive advising on Federal borrowing, lending, and investment policies.

increased, the expense ratio would decline. Yet it is likely that there would be no net earnings, since total expenses would exceed **total investment income**, over a **forty year working** life of an average SSIA holder. Thus the present Social Security trust fund, which is invested in Treasury securities (with net **earnings** after inflation of about three percent over the past three **decades**), would clearly be a superior investment to SSIAs.

The **only** feasible way for the Social Security system to benefit from the higher returns offered by the stock market is to invest a portion of the Social Security trust fund in stocks, **which** is what virtually all **large** public and private pension and retirement funds in this country have already done.

Why **then** do SSIA proponents **claim** that their plan would be cost-effective? They argue that if the **TSP** can service 2.3 million individual accounts for \$23 a head then surely SSIAs for 148 million Social Security workers could be serviced for less, because of economies of scale. What they fail to understand is that economies of scale **can** only be realized by increasing the number **of** workers in each workplace. We are a nation of small business, and it is not **likely** that our 6.5 million employers are about to merge into conglomerates large enough to make SSIAs cost-effective. **SSIAs** are doomed to **failure** because of intractable "smallness" problems -- small businesses and small average incomes subject to Social Security taxes.

We have no experience with a system of mandatory individual savings accounts dependent on performance by low income employees and small employers. There is no empirical basis for claiming that SSIAs would be administratively or **economically feasible**.

If Congress were **to** enact the pending SSIA legislation, it is likely **that** the program would be recalled within six months.



A New Social Security: Combining Social Insurance with Individual Accounts

By Yung-Ping Chen*

University of Massachusetts Boston

Gerontology Institute

100 Morrissey Boulevard

Boston, MA 02125-3393

Tel 617 287-7300

Fax 617 287-7080

I propose a compromise reform plan that would maintain social insurance features of Social Security and add to it the potential for augmenting retirement income from individually-owned saving/investment accounts. The plan thus embodies individual and collective responsibility, reflecting all the principles espoused by President Clinton, the Senate Republican Leadership Task Force on Social Security, and a Bipartisan Social Security Coalition in the Senate.

This plan, called “New Social Security,” would divide the current Social Security program in two: a defined-benefit social insurance component, like the one we have now, and a **defined-contribution** individual account, which would be new. The social insurance benefit would preserve the traditional old-age, survivors and disability (OASDI) protections, to be funded on a pay-as-you-go (PAYGO) basis using 10.8 percentage points of the current FICA for the next two dozen years. Funded by 1.6 percentage points of the current FICA, the individual account would be created without additional taxes or contributions. Such financing is feasible because we do not need these funds to pay benefits during the next couple of decades or so. The current FICA of 12.4% would remain.

This plan would remove the unfunded liabilities under the current Social Security program, keep the progressive benefit formula that protects low-income and disabled persons, cut FICA in order to create individual accounts, repeal the earnings test, and set moderate PAYGO rates over the next 75 years (10.8% for 1999-2022; 12.4% for 2023-2032; 13.2% for 2033-2042; 13.5% for 2043-2052; and 13.9% for 2053-2074).

To complement the PAYGO rates in shoring up the long-range financing, this plan also incorporates several provisions common to other plans, such as gradually increasing the retirement age, moderately raising the wage cap, covering state and local new hires, extending the benefit computation years, and taxing Social Security benefits like other pensions.

A unique feature of this plan is that the individual accounts would be mandatory now but voluntary in the future. In 2023--when the FICA needs to return to 12.4 percent--individual accounts will no longer be required. At that point, it is likely that workers who have had favorable experiences with individual accounts would continue to contribute to them. Other people would follow suit. If experiences have been unfavorable for most people, then why should the mandate continue? If the experiences turn out to be mixed, as seems likely, it would be sensible to allow individuals to choose whether or not to continue their accounts.

I propose that individual accounts be established on a time-limited basis (e.g., during the next two decades or so), as an experiment or a demonstration project, akin to the medical savings account in the Kassebaum-Kennedy bill (Health Insurance Portability and Accountability Act of 1996). The experiment would yield much data on individual accounts, such as the investment behavior and preferences of people by key demographic and economic variables (e.g., age, sex, and wage/salary), among other things. Such empirical “laboratory” data would serve as a useful guide in setting future policy.

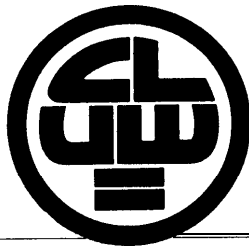
The proposed experiment raises a legitimate question about the safety of retirement income, a major concern about privatization in general. What if a person with an individual account loses everything he or she put into it during the demonstration period? Because Social Security benefit is a guarantee and receipt from individual accounts is added to that guarantee, people still will be assured of their Social Security benefits.

Other concerns about individual accounts exist. Many fear that unwise and unlucky investment decisions, or lack of investment knowledge, would make individual accounts an uncertain source of income. Others object to the administrative costs that may greatly diminish the returns of small accounts. Avoiding such problems, these accounts could be held and managed by a central authority with a limited number of investment options for account holders, patterned after the federal Thrift Savings Plan. Such a model would have the added advantage of avoiding fraudulent sales practices encountered by some individuals investing on their own.

Another distinguishing feature of this plan is the use of **PAYGO**, which some disapprove on the ground that future tax rates would be exorbitant. However, **PAYGO** will not entail high tax rates if the growth in benefits is moderated as under this plan. Moreover, using **PAYGO**, this plan will not involve sizable trust fund investments, so concerns about political interference in investment decisions and corporate governance become moot. Moot also are the controversies about the use of budget surplus and about whether the trust fund is real or illusory.

A word about the timing for establishing individual accounts is in order. I suggest we wait until the unified budget is also in surplus before we implement the carve-out for creating individual accounts. Unified budget surplus is estimated to occur in a few years. I therefore urge the Congress to pass legislation now for implementing the New Social Security plan when the unified budget surplus materializes--to create individual accounts using part of the FICA on an experimental basis and to finance the traditional Social Security on a responsible pay-as-you-go basis.

****An Economist, Yung-Ping Chen, Ph.D., holds the Frank J. Manning Eminent Scholar’s Chair in Gerontology, University of Massachusetts Boston. A founding member of the National Academy of Social Insurance, he served on the panel of actuaries and economists of the 1979 Advisory Council on Social Security. He welcomes comments by phone (617-287-7326), fax (617-287-7080) or E-mail (bing.chen@umb.edu).***



Coalition of Labor Union Women

1126 16th Street, NW • Washington, D.C. 20036 • (202) 466-4610 • Fax (202) 776-0537



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Chrystl L Bridgeforth

Women's retirement security depends on Social Security. More than 20 million women were over age 65 in 1998, as compared to 14 million men. By the year 2030, it is estimated that more than 38 million women will be over age 65. However, it is not only these statistics that prove Social Security is a necessity for older women; it is women's work-life experiences that translate into a need for more, not less, retirement security. This is based on four key facts about their lives: women live longer than men, they spend less time in the paid workforce, they are paid less when they work and they are more likely to be widowed than men.

The effect these facts have on women's economic status translate into a greater need by women for secure retirement benefits. Because women earn less than men in 99% of all occupations and are also more likely to work at temporary or contingent jobs, women's average monthly Social Security benefits are lower than men's. In 1995, the average monthly benefit for female retired workers was \$621.30 compared to \$810 for male retired workers. Even if pay equity went into effect in 1998, these benefits would not reflect such equalization for more than 30 years.

By the year 2010, it is estimated that 8 million women age 65 and over will live alone. These unmarried women age 65 and older rely on Social Security for three quarters of their income. Older women with low incomes also have a greater chance of becoming ill; the increasing costs of health care mean that these women will spend greater amounts of their fixed incomes on health care costs.

Concern about Social Security's ability to meet all of its promised benefits after 2032 drives the current debate. To date, much of the discussion about Social Security's future has focused on whether part or all of the present system should be eliminated in favor of privatized individual investment accounts. A central feature of individual account proposals, though often left out of the discussion, is the necessity of cutting Social Security's guaranteed benefit levels in order to pay for the individual accounts while at the same time covering the anticipated financing shortfall. Necessary cutbacks would likely include some combination of hikes in retirement ages to age 70, cuts in the automatic cost-of-living adjustment, sharp reductions in guaranteed benefit levels and



Coalition of Labor Union Women

1126 16th Street, NW • Washington, D.C. 20036 • (202) 466-4610 • Fax (202) 776-0537



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increases in the number of work years need to earn full retirement benefits. Most privatization proposals contemplate some mix of guaranteed, though greatly reduced, monthly benefit, supplemented by accrued contributions and investment earnings in an individual account.

Changes must be made to soon to ensure that the system can pay full benefits far into the future. However, the key issue for women is whether those changes will weaken or strengthen the social insurance protections that provide them with a foundation of retirement security. The wrong changes, such as those surrounding privatization, will have a devastating impact on women's economic security and their ability to lead independent, comfortable lives in retirement.

Although Social Security's projected financing shortfall must be addressed, at the same time it is essential to preserve the elements that have made the existing system so important for women, and so successful at raising millions of Americans out of poverty. This is especially true for older women, who are much more likely than older men to be living below or near the poverty line. These considerations include:

- ▶ Social Security must provide guaranteed benefits that women can count on to provide them a secure foundation of retirement income.
- ▶ Social Security must protect against low lifetime earnings that result from work in low-wage jobs or intermittent attachment to the workforce (by replacing a higher percentage of benefits for low lifetime earners).
- ▶ Social Security must protect against the risk of outliving retirement income, which increases with greater life expectancy, and against the erosion of the purchasing power of income that results from inflation over time.
- ▶ Social Security must provide family-based benefits that protect spouses and widows.

Social Security must provide adequate income to allow women to cope with the increased health care and related costs of aging that presently widen the economic gap for older women.



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Suite 234
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Tel - (202) 624-1417
Fax - (202) 624-1419

web page - www.nasra.org
email - jeannine@nasra.org

**Statement of J. Sparb Collins, President
National Association of State Retirement Administrators**

The members of the National Association of State Retirement Administrators (NASRA) are the administrators of the State retirement systems for the 50 States, the District of Columbia, and the territories of American Samoa, Guam, Puerto Rico and the Virgin Islands. On behalf of these retirement plans and the millions of public employees, retirees and beneficiaries they cover, I would like to thank the Administration for the opportunity to participate in the ongoing discussions surrounding one of the most valuable national retirement programs, Social Security.

With the aging of the baby boom population and the growing strain on federal entitlement programs, officials at all levels of government must work together to address all areas of our national retirement policy. In addition to fostering employer-provided pensions and personal savings, national policy must also address the financial solvency of the Social Security system. However, it will be a delicate balance to ensure that fixing one leg of the proverbial retirement security stool does not break one or both of the other two. The members of NASRA are very interested in providing support, expertise and accurate information for such discussions and are hopeful that you will continue to call upon us as you tackle this arduous task.

The Social Security system is a vital program, and its financial well being must be preserved. Numerous proposals intended to extend the life of Social Security have been forwarded with far ranging and reaching proposed revisions. One provision that has appeared in various proposals is to mandate Social Security coverage for all newly hired state and local government employees. **While NASRA supports the affiliation of public pension plans with Social Security on a voluntary basis, we strongly oppose mandatory coverage of public employees under the system.**

It is important to remember that at the time the Social Security system was established in the 1930s, public employees were barred from participating in the system based on the constitutional interpretation that the federal government had no legal authority to impose taxes on states and localities. State and local plans at that time designed their own retirement plans in reliance on that exclusion, and benefits were structured and funded on that basis. It was not until the 1950s that state and local government pension plans were given the voluntary option to elect Social Security coverage. While many public employers elected to complement their own pension programs through coverage under Social Security, other units of state and local government decided not to participate in Social Security but rather provide their own independent programs of retirement benefits which they believed (and continue to believe) best suited the needs of their workforce and their citizens.

These systems must provide comparable benefits to the retirement, disability, and survivors' benefits provided by Social Security. In most cases, these systems provide substantially higher benefits. In addition, many provide flexibility to specific classifications of employees who are ill-suited to participate in a program which does not allow for normal retirement until age 62 or later and also provide supplemental benefits in the health care area. Mandatory coverage of newly hired state and local government employees will seriously disrupt the financial standing of these systems, requiring reductions in benefits, increased costs, or both. Public employer contributions to these plans already average between 13 and 14 percent of payroll, and employee contributions to these plans average between 8 and 9 percent

of pay. The added Social Security payroll tax of 6.2% on each, on top of what they already contribute to the pension fund, would simply be untenable for many employers and employees.

In addition, the coverage of newly hired state and local government employees does nothing to solve the long-term solvency of the Social Security system. Current projections by the U.S. General Accounting Office (GAO) estimate that such coverage would, in the short-term, provide additional cash flow to pay current beneficiaries. However, such coverage also imposes additional liabilities on the system and ultimately results in increasing the expenditures that must be paid out of the Social Security program. These state and local systems effectively manage retirement funds on behalf of public employees and are models for effective management of retirement savings programs that should be studied for best practices, not raided as a short-term and short-sighted fix for Social Security.

Additionally, those who espouse the unfairness of public sector employees “double dipping” by qualifying for Social Security benefits from either a second career or as a spouse, are simply uninformed. Current law already addresses this issue through the “windfall elimination” and “government pension offset” provisions that reduce Social Security benefits for those receiving a pension from non-covered government employment. The true issue of unfairness surrounds the federal government attempting to “change rules in the middle of the game” as they relate to these retirement systems, participants and taxpayers.

State and local employees, in partnership with their employers, contributed to and successfully managed these plans for the range of retirement benefits offered, with a commitment to long-term retirement savings and security. They should not now be punished for their planning and initiative. NASRA supports efforts to work with the national government as partners in our federal system, however, federal intervention into or preemption of the legitimate role of State authorities would be a drastic departure from the principles of federalism. There are serious constitutional and administrative problems with mandatory coverage, including the encroachment on State sovereignty, and the usurpation of State governments’ and their political subdivisions’ authority to perform their responsibilities and meet the needs of their workforce and their citizens.

For those public employers that have elected to have their employees covered by Social Security, a key area of concern is the seemingly never ending confidence crisis being faced. As we encourage our participants to plan for their financial futures through personal savings, employer sponsored pension plans, and Social Security, we frequently hear from those participants (particularly the younger ones) that Social Security is nothing other than a 1930’s ponzi scheme that for them will be a financial burden rather than a financial blessing. To a certain extent, this is understandable in light of the frequency with which the rules seem to change and the continual bombardment of negative press. Rule changes in such areas as eligibility age, benefit levels, COLA’s and contribution amounts make it virtually impossible for even the strongest advocates of financial planning to develop viable long term arrangements. With regard to negative press, there are those who believe that the dire predictions of failure simply set the stage for the demise of the Social Security system to be a self fulfilling prophesy. It is critical that action be taken which allow the public at large to once again have confidence that Social Security will be there for them and that it will constitute a key component of their financial security in old age.

Again, we appreciate your commitment to our national retirement savings policy and thank you for the occasion to relay our views. If we can be of further assistance, please feel free to contact me at (701) 328-3900 or NASRA's Director of Federal Relations, Jeannine Markoe Raymond, at (202) 624-1417.

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Viewpoint on Social Security Reform

The Committee for a Responsible Federal Budget, together with American Express Financial Advisors, has conducted six *Building a Better Future: An Exercise in Hard Choices* meetings around the country. Almost thirty organizations, representing diverse constituencies and political perspectives, are participating in this project. In July 1998, we published an interim report summarizing the results of the first five meetings. We will host four more meetings early in 1999, then publish a final report.

Building a Better Future: An Exercise in Hard Choices provides opportunities for diverse audiences to talk about the future of Federal programs and policies. It is, in effect, like a deliberative poll. It focuses on longer-term economic and budget issues, including Social Security, health care financing, and revenue options. Interim results indicate that Americans are willing and able to tackle difficult issues and make hard choices in order to assure a better future for all. *Exercise* participants appreciate the opportunity to learn more about these topics and discuss them with others. Elected officials appreciate learning what their constituents think about these issues.

Exercise results. Participants overwhelmingly agree that government should save short-term surpluses and then balance the budget. Rather than raise taxes to pay for baby boomer benefits, they prefer to reform programs. Participants' decisions indicate it may be easier to reach consensus around Social Security reform than on Medicare reform. Substantial majorities would include some form of mandatory individual accounts in addition to, or as partial replacement for, Social Security. On Medicare, participants split between two very different approaches: incremental change to the current program, and switching to a voucher-type system to help older Americans purchase coverage.

The Committee also has underway a project we call *The Graying of America*. In the first phase, we collected and published a wealth of information about how changing demographics affect public policy. The second phase report, to be published next year, will discuss alternative approaches resolving the challenges posed by changing demographics.

As the debate around these issues begins in earnest, we want to emphasize four concerns.

◆ ***Focus on the right problem to find the right solution.*** Economic growth is crucial. Growth becomes much more challenging as the population ages. The cost of current public commitments to older Americans will grow more rapidly than the economy. That could place a greater tax burden on younger generations. Policy debates should concentrate on redesigning policies and programs to meet the needs of not only an older, but a much more diverse population in the 21st century. Talking about "saving" Federal programs misses the point. The key is to promote greater

national saving and investment, which will lead to higher growth. A stronger, faster growing economy is the one sure to make an aging society more affordable. A bigger economic pie will be easier to divide than a smaller one. That is true whether the public or private sector allocates resources.

◆ ***The problem is the problem*** Current law benefit commitments to the elderly are not sustainable at current tax rates. That leaves only four options, singly or in tandem: taxes must go up; benefits must be reduced; other government programs face deep cuts; or the budget will face a dangerous spiral of deficits and growing debt. It will take a greater share of national economic output to support a larger retiree population. Policy choices will determine how much of that cost is born by government and how much by individuals and families. Changing the composition of investments in the Social Security Trust Fund will not make promised benefits more affordable. Mandating deposits to private accounts would shift responsibility from the government to individuals, but the public must recognize and accept downside risks and the continuing need for income support for the poor elderly, the disabled, and survivors. Otherwise, support for the new system will not last.

◆ ***Programs for the elderly do not exist in a vacuum.*** Social Security cannot achieve financial stability at the expense of other parts of the budget or the economy. Older Americans are important; but government also must serve competing priorities, including: Medicare; health care assistance and income maintenance for other groups; agriculture; defense, the conduct of foreign affairs, law enforcement, and investments in physical and human capital. To meet future commitments to the elderly and fund other priorities as well, the Federal government could grow to 25%-30% of GDP. (Many other democracies have done that.) But that would crowd State and local government budgets; and voters are not likely to accept a 20%-25% total tax increase. Deficit financing such government expansion is not an option. That would do serious damage to the nation's economy. Thus, we must consider Social Security reform in a broader economic and budgetary context. Current law earmarks a very substantial portion of future resources to meet today's priorities. Policy change can exacerbate or ease that problem. Freeing future generations from that burden should be a major policy objective.

◆ ***Avoid delay.*** If haste makes waste, delay could prove to be disastrous. Trust fund solvency is an inadequate and misleading measure of the urgency for reform. Within a decade, the oldest baby boomers will begin drawing Social Security retirement checks. Within fifteen years, annual cash flow to the Social Security system will turn negative. Medicare already spends more than its dedicated income-and some options for Social Security reform would aggravate that problem. There is precious little time to change expectations, behaviors, or both. If government will provide less generous benefits to some or all retirees in the future, individuals need to save more now. They will need time to make plans and alter consumption and savings patterns. In addition, small programmatic change now can make huge differences fifteen or twenty years into the future. The longer we delay, the greater the need for adjustment and the less appealing the options.

For further information, please contact: Carol Cox Wait or Susan Tanaka at 202-547-4484.



THE CONCORD COALITION

1019 19th Street N.W. Suite 810 Washington D.C. 20036
202 467 6222 ♦ (Fax) 202 467 6333 ♦ <http://concordcoalition.org>

After a year of dialogue, the time has come for bipartisan action to ensure that Social Security is fiscally sustainable and generationally responsible. The current system is neither. Overall, the challenge is to reform the program in a way that retains its beneficial effects for retired and disabled persons without overburdening workers or the economy.

Defining the problem

The first step in this effort is to define the problems that need fixing. The Concord Coalition has identified these key problems to be addressed in any comprehensive reform proposal:

- Changing demographics make the current pay-as-you-go benefit structure unsustainable. Absent change, the system will either overburden future workers with steep tax hikes or betray future retirees with deep benefit cuts.
- Workers are on track to receive increasingly low returns on their contributions.
 - a Despite a growing consensus that America needs to raise its private savings rate, Social Security's pay-as-you-go benefit structure discourages savings.
 - a Low and declining public confidence threatens support for the program.

No single reform is capable of addressing each problem. Reform legislation will require a mix of options. And, because the political process is one of debate and compromise, no one is likely to get his or her ideal result. Failure to achieve perfection, however, is not an excuse for inaction.

Establishing criteria

The second step in the process of reform is to establish a set of criteria for evaluating the final result. These criteria should be correlated to the problems that need fixing. Having a vision of the desired result will help avoid the danger of adverse unintended consequences. The Concord Coalition suggests the following criteria:

- a Social Security reform should, at a minimum, maintain the program's vital safety net protecting older Americans and the disabled against poverty and loss of income.
- Social Security reform should improve the projected "money's worth" of payroll contributions for young workers and those who have not yet entered the work force.
- Social Security reform should not add significantly to the publicly held debt, but instead, should increase net national savings.



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- The costs of reform should be borne fairly by age and income groups.
- Reform of the system should provide adequate protection against both political and investment risk.
- Because the Social Security trust funds only provide spending authority with no real resources beyond the government's power to tax future workers, reform proposals should be measured by their impact on the program's projected *operating balance* in addition to the trust funds' 75-year actuarial balance.
- Reform proposals should be grounded in prudent demographic, economic, and administrative assumptions. Any plan, including one that simply maintains the status quo, can be made to work on paper if the assumptions are drawn to fit the desired result.

Assessing the options

Social Security does not face an immediate crisis. But reform is on the political agenda in 1999 because the program is unsustainable over the long term, and early action will produce less abrupt and disruptive solutions. That leads to some crucial but often overlooked conclusions:

- The choice among options is not between "guaranteed" future benefits under the current system and "risky" or "burdensome" reform. The only guarantee about the benefit promises of the current system is that they are substantially unfunded.
- Reforms involving individual accounts should not be compared with a hypothetically solvent status quo. The proper comparison is between a reformed system *with* individual accounts and a reformed system *without* individual accounts.
- The current debate is not about the retirement security of those who have left the work force, or those who will leave in the near future. The debate is about the retirement security of those who have many working years ahead, and those who are still in grade school. For them, doing nothing is the worst option.
- There is no free lunch. Each reform option involves trade-offs and each comes with a fiscal and political price, regardless of whether it aims to shore up the pay-as-you-go system or involves a transition to a prefunded or partially prefunded system.

Saving the surplus

The currently projected Social Security surplus could be productively used to reduce federal government debt held by the public. However, there is a great probability that the surplus will be used, as it has been in the past, to finance other government spending or for tax cuts, unless steps are taken to invest it for Social Security beyond the reach of government control.

- If individually owned accounts are part of a comprehensive reform bill, the Social Security surplus could be used as an initial source of funding for these accounts. This would truly save the surplus for Social Security.



DETROIT AREA AGENCY ON AGING

1100 Michigan Building
220 Bagley Avenue
Detroit, Michigan 48226-1410
(313) 22245330
Fax (313) **222-5308**

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DETROIT-AREA SENIOR POWER DAY PLATFORM ON SOCIAL SECURITY

On June 26, 1998, a regional Senior Power Day was held on Belle Isle in Detroit. At that time, a platform was affirmed and submitted to the state legislators who attended. The following statement on Social Security was part of those proceedings.

ISSUE STATEMENT

There has been a good deal of mis-information spread around in the growing debate over Social Security and very little in the way of hard numbers. According to some experts, while Social Security is solvent today, it faces a long-term funding crisis. If no action is taken, the program is expected to begin paying out more than it collects in the year 2013. By the year 2032, payroll contributions will only be enough to cover 75 cents on the dollar of current benefits.

RECOMMENDATIONS FOR ACTION

Organizations representing senior citizens, including AARP, should take the lead in meeting with representatives of youth service groups to reach an agreement and to help assure the long-term solvency of Social Security program which has benefitted people of all ages: retirees, and the survivors of death and disability. We reject the concept of "generational conflict." Together, seniors and youth need to combat the campaign of the traditional opponents of Social Security (the insurance companies and Wall Street brokerages) saying, "there won't be any Social Security for young people when they retire", thus leaving privatization as the only alternative for them.

Social Security has never been a simple insurance program. These funds also support children and orphans, disabled and low income persons. We are not trying to make Social Security take the place of pensions, or savings, or investments. It is a safety net for all citizens. For that reason we continue to support the present system of taxation of Social Security benefits on a sliding scale beginning at \$15,000 for individuals and \$32,000 for couples. We would like to be reassured that these funds end up back in the Social Security Trust Fund to help assure its survival and not as an unaccounted deposit for general tax expenditures by government.

The Detroit Area Agency on Aging is an Equal Opportunity Employer
Auxiliary Aids and Services Available Upon Request to Individuals with Disabilities
The Michigan Relay Center Number is 1-800-649-3777 (voice and TDD)

Therefore, we:

- Encourage extended debate.
- Oppose radical changes of privatization or drastic benefit cuts.
- Call upon Michigan legislators to host a forum to promote discussion between the public and Michigan federal legislators on the future of Social Security.

We at the Detroit Area Agency on Aging remain supportive of these statements.

Paul Bridgewater
Executive Director
November 30, 1998

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MASSACHUSETTS INSTITUTE OF TECHNOLOGY

DEPARTMENT OF ECONOMICS

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The Trust Fund Should Invest in Stocks and Corporate Bonds

Peter Diamond, Institute Professor

Individuals are advised to hold a diversified portfolio when saving for retirement. Corporations are advised to hold a diversified portfolio as backing for their pension liabilities. Yet the Social Security Trust Fund is 100 percent invested in Treasury bonds. By taking on some risk, the Trust Funds can anticipate receiving a higher rate of return over the long haul, and Social Security is indeed here for the long haul. With its ability to spread risk across successive cohorts of workers and retirees, Social Security is better able to take on risky investment than individuals themselves, on average. So there is no economic basis for excluding stocks from the Trust Fund portfolio.

Some people fear that the Trust Fund would invest so poorly that the return would be worse than just holding Treasury bonds. And some fear that the Trust Fund would use the voting rights of shares in a way that would be harmful for the economy. These fears can not be considered in a vague setting. Rather, we need to specify, in detail, how the investment decisions and the share voting decisions would be made. Only then can we form a judgment as to how well they would be done.

The critical step is to create an institution with independence from the day-to-day political process and with restrictions on how it can act. We have experience with creating such institutions and our experience is excellent. The Fed handles monetary policy, an equally important and controversial activity, with great independence. And the retirement savings plan for federal employees, the Thrift Savings Plan (TSP), handles both investment decisions and share voting without political interference. The key ingredients are (1) a decision-making Board that has financial and appointment independence and (2) a restriction to using broad, widely-used index funds, with the private fund managers, not the Board exercising voting rights.

The Board would have financial independence by getting its revenue from charges against the earnings on the funds it manages. The appointments would be for long, overlapping terms, subject to the scrutiny of Congress at the time of nomination, but protected from removal because of policy disputes. The Fed has just these protections, and they work.

For restrictions, the Board can only invest in broad, widely-used index funds, run by private fund managers, and selected by competitive bidding; multiple funds would be used to spread the voting power. The shareholder voting rights would be exercised by the private managers who also handle the funds of private investors, necessarily treating them all the same. The fund managers and the investment board would have strict fiduciary duties. The law could empower the Board to inform Congress and the public about any legislation that might adversely affect the Trust Fund.

So, we know how to create an institution that will work. In addition, the voting public will want to protect Social Security investment from any interference that might threaten future benefits. Politicians would not interfere with this important and independent function, because the public would not tolerate such interference.

This structure can work. Even so, being conservative about a new institution is warranted. One way to be conservative is to limit the size of stock investments. The law could mandate that the Trust Fund not hold more than a certain percentage of any single corporation, 10 percent, for example. As we learn that the political fears are not borne out, we can raise the limit. If stock investment sounds a bit unrealistic, consider that it has worked well for the members of the TSP - they have held the S&P 500 and have had very low administrative costs - considerably lower than the typical 401 (k) plan. And there has been no political interference. So, we can use this model for Social Security with confidence.

This approach to tapping into stocks has three large advantages over individual accounts - lower administrative costs, less risk for workers, and no need for a vast new regulatory mechanism to educate new investors and protect them from fraud and misleading selling tactics. (1) The administrative cost of managing Trust Fund investments would be negligible, while 150 million individual accounts would have substantial costs - the impact of even seemingly small fees can be large. For example, an annual maintenance charge of 1 percent, which is less than the 1.5 percent average currently for equity mutual funds, would eat up 20 percent of the system's benefits. Over the course of a 40-year working career, the average dollar deposited is charged 1 percent 20 times. (2) By spreading the risk over successive age cohorts, workers nearing retirement do not bear a big risk from a sudden stock market decline. And (3) the majority of the public has little experience or understanding of the principles of investment. Beyond learning to avoid fraud and misrepresentation, it is not easy to appreciate the advantages of diversification, understand the details of a risk-return tradeoff, distinguish between real and nominal returns - all of these require education, and education is expensive. Merely sending a pamphlet to every worker will not accomplish much.

Trust fund investment in stocks will make Social Security better for workers, while individual accounts are expensive, risky and introduce new problems for both workers and retirees.

This statement represents my views and not those of the Massachusetts Institute of Technology.

Instituto Puertorriqueño/Hispano Para Personas Mayores, Inc.

Institute for the Puerto Rican/Hispanic Elderly, Inc.

105 East 22nd Street - Room 615

New York, N.Y. 10010

Tel:(212) 677-4181 Fax:(212) 777-5106

Statement By Suleika Cabrera Drinane, Executive director, Institute For The Puerto Rican/Hispanic Elderly, Inc., For The Conference Publication, White House Conference On Social Security, To Take Place On December 8, 1998, In Washington, D.C.

Hello! I am Suleika Cabrera Drinane, Executive Director of the Institute for the Puerto Rican/Hispanic Elderly, Inc., the largest and major Hispanic non-profit organization serving Hispanic and other ethnic/racial minority seniors and their families in New York City and environs. The Institute provides direct assistance services to over 15,000 individual seniors a year, and informational/referral services to another 125,000. For low-income seniors, Social Security payments represents **50** percent or more of their income. Their Social Security benefits are low, since the larger number of those seniors worked in lower-occupational, lower-wage jobs and only receive small monthly payments. Due to a lifetime of no access to quality healthcare (or any healthcare in many cases), Hispanic and other ethnic/racial minority seniors have relatively poorer health than other seniors, and an alarmingly high number are at serious risk by age 60. Seniors are outraged. It is hard for them to understand how our government seems to have turned its back on the poor and low-income communities, and no longer accepts responsibility for the health and welfare of the people. The same communities that have defended this country in foreign wars and provided the physical labor in its industrial age development.

The Social Security Program was and is among the greatest social accomplishments of our democracy. Social Security is not just a retirement program, but rather a national insurance program which for a very low premium protects American citizens from economic misfortunes at every stage of life. Today, 3.8 million children, and 5.2 million widows and widowers currently collect Social Security survivors benefits. Another 4.5 million disabled workers collect Social Security disability benefits. Today, Social Security provides retirement income to workers in commerce and industry, eligible at age 62 for reduced benefits and at age 65 for full benefits. It provides a continuing income for a family in which a worker has died, become disabled or has retired. Some nine out of ten people age 65 and over receive monthly **re-**retirement benefits - four out of five workers under age 65 can receive monthly disability benefits if they are unable to work - and nine out of ten families would receive monthly survivors benefits if a worker dies. Social Security is provided by government at a cost far below the abilities of private companies **to compete, There are many who say that they can find cheaper** ways to “save” Social Security from failure, by privatizing it or by letting Wall Street

get its hands on the sizable Social Security revenues through individual taxpayer accounts or Social Security Trust Fund investments.

We heard how those same people were going to save Medicare and reduce costs, and now we are faced with Medicare Managed Care providers crying poverty and losses, and closing out their Medicare Managed Care programs for both new applicants and current members in 20 states. In some cases, even discontinuing coverage on a month's notice. They pillaged the system and now throw it out. The same fate could await Social Security if left in the hands of Wall Street or other self interested parties.

There has been talk of raising the eligibility age, means **testing** benefits, changing indices and COLAS, and increasing payroll contributions. Under current laws, the eligibility age will rise to 67 years in the next couple of years. Hispanics and other ethnic/racial seniors often at risk at age 60, would most likely never see a penny of their contributions over the years when eligibility ages are raised to 67 years, much less even higher. Other seniors would also suffer from the "gaps" between their retirement and the receipt of benefits. With the out-of-pocket cost of health care now at 20 percent of income, and rents reaching 40 percent of income, low and low-middle income seniors would have a hard time if they or the government were to gamble with Social Security funds by playing the stock market and if FICA payroll contributions were raised too high. Social Security is a contract between beneficiary and the government, whose eligibility should not be based on means testing.

Those same interest groups are trying to divide and conquer, by propagandizing that the elderly are taking money away from the younger taxpayers, and that younger taxpayers can make out better through privatization. The Baby Boomers may have thought that 30 years ago, but now they are fighting to preserve Social Security. You know why? Because they will need it. Selfish interests would destroy the security in Social Security for our children and grandchildren.

Depending on what is in it for them, their political **affiliations**, their own claim to wisdom and honest opinions, all kinds of experts have come forward pleading gloom and doom or claiming that there is no significant problem that cannot be resolved with small adjustments. It is a wonder that all of the parties have access to the same information and come up with so many different opinions. I say, don't fix it till it's broken. There is no immediate problem, and the rising costs of providing Social Security Benefits can be overcome through adjusted FICA payroll contributions for both taxpayers and employers. Certainly some of the government surplus can be used to make some adjustments. We do not need experts to help fix a machine that has been working well for a long time without them. Please leave Social Security alone. Thank you.

**Statement of Ken Duncan
State Treasurer of Louisiana**

Currently, almost one quarter million state and local employees in Louisiana contribute to public retirement systems and **do not** pay the old age portion of Social Security employment taxes. These retirement systems provide employees with constitutionally guaranteed lifetime retirement benefits based on a variety of service and age combinations. Retirement eligibility can be as early as with 10-20 years of service. The retirement systems also provide in-service disability and survivor benefits. Disability benefits are available when the person can no longer perform their **current** job.

These benefits are superior to those provided by Social Security. Excluding Public Safety personnel, the current normal cost of these public retirement systems is 14-16% of the covered payroll. The cost of the old age portion of Social Security is 12.4% of the covered payroll. The public employers/employees in Louisiana **cannot** afford to pay an additional 12.4% without increasing taxes or reducing expenditures from some other budgeted area. Thus any "new hires" would have to be covered by a new tier or plan, while maintaining the old plans for the "old hires." The benefits in addition to Social Security, which could be funded by 1.6-3.6% of the payroll, are **VERY LIMITED**. The current level of benefits are superior to that which would be provided by Social Security and augmented by the remaining 1.6-3.6% of payroll.

The soundness of Social Security for the future is a very important issue for the nation. However, a participation mandate for governmental workers does not provide long term fiscal benefits to Social Security or equal/greater benefits to governmental employees. It would result in a permanent and serious reduction in the compensation package for firefighters, police officers, teachers and other governmental employees in Louisiana and nationwide. A mandate just does not make sense.

ARGUMENTS IN OPPOSITION OF MANDATING SOCIAL SECURITY COVERAGE FOR STATE AND LOCAL GOVERNMENTS AND THEIR NEW HIRES

1. **Requiring public employees to be covered by Social Security would increase payroll taxes** The additional 12.40% cost for new hires (6.20% employer plus 6.20% for the new hire) would create a financial burden for Louisiana public employees and employers.
2. **Social Security needs a long-term solution, not a quick fix.** Coverage of newly hired public employees would increase revenues to the Social Security fund for several years. HOWEVER, Social Security does not have a short-term problem. Social Security has a long-term funding problem because excess short term revenues are not being saved and invested to pay the accruing liabilities attributable to those revenues. If the cost of **providing** benefits exceeds the funding necessary to provide these benefits adding more people to the system will make matters worse, not better.
3. **The Federal Government confirmed eight years ago that coverage outside Social Security was appropriate.** The 1990 federal law requiring all state and local employees be covered under a plan comparable to Social Security confirmed that coverage under the Retirement Systems should be the only option for these workers.
4. **Public pension plans are much more soundly funded than Social Security and provide better benefits for the dollars contributed.** Public Pension plans are able to invest in securities providing a higher return than the bonds held by Social Security.
5. **State and local employees do not believe they need Social Security coverage.** These employee groups have been outside Social Security since the 1930's in some cases.
6. **Pension portability for public employees has improved.** Most public pension plans have provisions for

purchase of out-of-state service or the transfer of in-state service.

7. **Public employees are not receiving any unfair benefits from Social Security.** Public employees in non-Social Security states do not receive a free ride. Some of them do receive Social Security benefits from other employment that was covered by Social Security, but then incur a reduction in their Social Security benefit.
8. **There would be a loss of the element of control by the state retirement systems to the federal government.** The federal government controls the benefits and costs of the Social Security program. For example, benefits can and have changed, which have adversely impacted those eligible to receive as well as those receiving Social Security benefits.
9. **Retirement benefits are an important element of the compensation package for Fire and Police Officers.** The physically demanding nature of their duties dictates that public safety officers not work beyond a certain age. The normal retirement criteria for Fire and Police Officers is any age with twenty-five years of service. To require public safety officers to work until age sixty-five would be a detriment to the safety of the public and the officers. The inherently dangerous nature of their work requires a comprehensive death and disability plan for public safety officers. Social Security does not provide the level of benefits needed by public safety officers.
10. **Unconstitutionality.** A mandate from the federal government that covers all State and local workers under Social Security probably violates the Tenth Amendment to the U.S. Constitution.

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Social Security Reform

The current Social Security program has served our nation well for over sixty years. The lives of countless elderly citizens have been greatly improved by this dependable source of income. However, as we approach the new millennium, several changes to the demographic, economic, social, and political landscape of our nation demand that a new assessment be made as to the retirement income policy that should take us well into the next century. Longevity has increased substantially since the current program was designed in 1935. Those reaching retirement age today can expect to live another 15 to 20 years on average compared to the life expectancy of the 65 year old in 1935. Today there are about 3 workers for every pensioner while there were 42 for every pensioner during the days of the first retirees of the 1940's. The aftermath of the Great Depression saw a need for older workers to leave the **workforce** to create needed jobs for the young and unemployed. Today we see a record of several years of low unemployment with the forecast of a labor shortage in the coming decades. The trust fund concept as a way of protecting future pension promises, though not well understood by the general public, gained acceptance during many years of government budgets that were largely balanced. Growing **confidence** and trust in the government as a whole, and especially the Social Security Administration, continued into the 60's. These views have now changed and the public, especially younger members, prefer some say in how their retirement future should be safeguarded and the **confidence** in the government continues to ebb with citizens in all age groups. The personal savings rate in this country continues to lag behind the rates in other competing economies. Considering all of these factors, it is time to consider fundamental changes to the social security retirement program. Changes in the program should follow certain basic principles. Designs should aim to meet the challenges posed by the following factors: 1. The demographic reality and forecasts bode problems for the current program design. 2. The savings rate in the United States needs to increase. 3. The **confidence** of workers in the system is falling and must be restored. 4. The vast majority of Americans support or accept a degree of transfer from high earning to low earning workers.

The twelve principles elicited below should guide the efforts to design the retirement income system for the coming century:

1. Current beneficiaries and workers within at least ten years of retirement should be fully protected under the current system.
2. The combination of a flat pay-as-you-go defined benefit tier and a fully funded tier of **defined** contributions can **satisfy** the desire for some individual choice and utilize the benefits of individual savings and progressive redistribution. This combination also maintains the protection of **defined** benefits with the opportunity for greater returns on retirement savings.
3. The program must be designed so that the amount of the defined benefit will ensure against poverty, but also so that individual savings are encouraged and will become the primary source of retirement income.
4. While the program should move individuals from dependency on government to a system of individual savings accounts, recognize that this will take a long time and that lower level and part time workers' contributions may have to be subsidized. Also, the use of government guaranteed minimum benefit should be used as necessary during transition.

5. Recognize that there will be a cost for transition and try to spread that **cost** across **generations** to the extent feasible. There should also be recognition that the **costs** to **try** to **fix** the current program are substantial.

6. **Establishing** individual accounts will require substantial time and the investment **and** regulatory mechanisms to protect workers' savings need to be designed and implemented **carefully**. The government may have to initially subsidize the establishment of this system

7. Administrative costs for this new program are likely to be substantially higher than for the **current** program. At least in the initial years, these administrative costs may limit the choice of investment selections for workers. There should also be recognition that the current **administrative** mechanism leaves much to be desired.

8. Some of the details for full implementation require further study, (e.g. requirement for **annuitizing** the **defined** contribution income at retirement) but this should not delay the decision for the basic design of the program for the next century.

9. Whatever the final design of the program there should be broad bi-partisan support before implementation. Such a major decision should have broad acceptance by both parties and the public to forestall immediate attempts to substantially modify the program.

10. The public still does not have a good understanding of the current program. Any new program should be carefully explained to the public along with the reasons for moving away **from** the current program

11. While the defined contribution tier of this reformed program should leave the age of retirement somewhat to individual choice, incentives for increasing productive work and reducing early retirement must be identified and implemented. This will require new long term training and education efforts.

12. While the disability program of Social Security may require its own set of reforms, this reform effort should be restricted to the retirement portion of the program and not affect the disability or survivors aspects of the current program.

Since there is broad agreement that at least a portion of the current budget surplus should be allocated to "save Social Security", Congress and the Administration should agree **immediately** to allocate the current surplus and any further surplus to individual retirement accounts until the final redesign of Social Security has been agreed to and an implementation **plan has been set**. In order to stimulate final agreement the entire amount of Social Security surplus revenue collected between now and implementation of a new program should be designated toward this commitment. This should be implemented by allocating a Social Security Bond of \$500 to each worker between the ages of 25 and 55 who earns four social security credits for 1998. This entitlement can be established by the Social Security Administration **as it processes the earnings** records for 1998 and a certificate of entitlement issued. The total **amount** of these funds should be invested in a special account by the Treasury Department **until the appropriate investment and oversight mechanisms for the reformed social security program are implemented**. **This allocation** will establish the principle of individual accounts and any earnings will be allocated **equally** to participants. By making these allocations at a flat rate, the **principle of redistribution is established** and each worker has claim to these funds only upon retirement.

Louis D. Enoff

December 1, 1998

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SOCIAL SECURITY REFORM MUST PROTECT PRIVATE PLANS

To redress the projected imbalance in the Social Security program, Social Security benefits must be reduced and/or revenue to the Social Security program increased. There are no "easy solutions," and it is important that all players understand -- and prepare for -- the tradeoffs and ramifications of the tradeoffs that will be made.

Today, retirement plans voluntarily sponsored by employers for their employees provide the largest source of retirement income other than Social Security for the middle three income quintiles of the elderly population. They are expected to be an even greater source of retirement income in the future.

Employers, employees, and policy makers need to understand and assess the impact of Social Security reform on retirement plans in order to design a reform program that will support and encourage the creation and maintenance of employer-sponsored plans in the future.

The ERISA Industry Committee (ERIC), an association representing the employee benefit interests of the nation's largest employers, recently released a report that examines the impact of various Social Security reforms on the financing, design, and administration of employer-sponsored plans. ERIC's report draws the following five conclusions about the reform process:

Early action on reform will be critical to its success. The potential impact of many reform proposals on the financing, design, and administration of employer-sponsored plans is significant, but can be mitigated in part if employers are provided a long time to adjust their plans. For example, employers and employees were provided 17 years notice of changes to the Social Security retirement age enacted in 1983. Precipitous changes will not provide employers the time needed to design, finance, and administer plans that will be effective in delivering retirement income in a new environment, or employees the time they will need to accumulate benefits in those plans.

Many proposals impose financial costs that have not been fully examined. In today's competitive business climate, employers will not be able to absorb increases in compensation costs due to changes in Social Security. Potential employer cost increases due to Social Security reform may be offset by reductions in other expenses, which can include reductions in benefits and/or contributions under employer-sponsored retirement plans. Payroll tax increases in any form, transition costs imposed to facilitate changes in Social Security, and reducing the ability of employer plans to take Social Security into account in determining benefits under the plan each can result in substantial increases in compensation costs.

(over)

Both reductions in the Social Security defined benefit and the creation of Social Security individual savings accounts can reshape the plans employers offer to employees in the future. Employer-sponsored plans assume the existence of a Social Security benefit similar to that provided by current law. If the size of the benefit is substantially reduced or is replaced with a defined contribution account, employer plans will have to change. Social Security reform may also have dramatic effects on the disability and dependents' benefits provided under employer plans.

Imposition of a means test would undermine the attractiveness of employer plans. Making receipt of a Social Security benefit contingent on a means test will act as an incentive for some employees not to save money for their own retirement, can encourage employers not to offer retirement plans, and will frustrate the ability of employers who do offer plans to design plans that provide uniform benefits to employees at varying wage levels in their workforce.

Administrative issues may prove the most critical and the most intractable in crafting successful reform. Employers might find it impractical to design plans that are appropriate for older workers who remain under the current Social Security system, young workers under a different system, and middle-age workers under one or more transition systems. Regarding the establishment of Social Security individual savings accounts, it is critical to recognize that no universal system currently exists -- either in government or in the private sector -- to maintain such accounts, and that employers are not an appropriate choice to manage many aspects of them.

Avoiding problems such as these will determine whether Social Security reform will earn the confidence of the American public. It can be done if we craft reform with the facts in mind.

Building a Secure Foundation

The national debate must expand to include the impact of Social Security reform on other key components of retirement security -- most critically on employer-sponsored retirement plans. It must lead to the enactment of reforms that build a more secure foundation for Social Security while preserving and enhancing savings opportunities provided through employer-sponsored retirement plans.

Employer-sponsored retirement plans are adaptable. They can thrive under Social Security reform if that reform thoughtfully takes their needs into account. Millions of workers and their families count on employer-sponsored plans to provide a major portion of their retirement income. Social Security reform must be shaped in a way that permits employer-sponsored plans not only to adapt, but to flourish, so that they can increase national savings and continue to provide a critical part of the Nation's retirement security.

For a copy of ERIC's report, "The Vital Connection: An Analysis of the Impact of Social Security Reform on Employer-Sponsored Retirement Plans," go to ERIC's website, ERIC OnLine (www.eric.org), or call the ERIC office.



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122 C Street NW, Suite 125 • Washington, D.C. 20001-2172 • 202-783-7507 • FAX 202-783-7502

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STATEMENT ON SOCIAL SECURITY

DECEMBER 1998

Social Security is an excellent program that has proved its worth over the years. It is the largest anti-poverty program in the United States and ensures that none of the millions of elderly Americans, disabled workers and their dependents, adults with severe disabilities who are dependents or survivors of their parents, and spouses and children of deceased workers become destitute. The Evangelical Lutheran Church in America is a strong proponent of Social Security in that it **further**s a more just and compassionate society and is carried out with a strong sense of elemental fairness. This church's vision of a sufficient, sustainable livelihood for all is furthered by such programs as Social Security which cares for the "widow and orphan," the disabled person, and the older American alike.

It is our judgement that Social Security needs adjustment, but that it is not in imminent crisis. There is time for a thorough debate. Any policy changes made to preserve the fiscal integrity of the Social Security system must protect the core values and benefits of the current system, provide sufficient revenues for the program well into the future, and protect vulnerable populations, particularly the working poor, women, and minorities.

There have been several proposals to make individual investment accounts a part of the Social Security system. We believe that private accounts should not be substituted for Social Security's current defined benefits. Diversion of tax revenues to pay for private investment accounts appears to make the projected long-term financing problems more severe, forcing deep benefit cuts and raises in the retirement age. An increase in retirement age for those who work in physically challenging jobs or who as a group have a lower life expectancy is not an acceptable alternative. As individual private accounts are considered, the complexities of administration should also be considered.

In general, 1) there should be no reduction of benefits and no increased restrictions on eligibility; 2) individual saving and private pension programs should be encouraged through changes in policy, but not at the expense of Social Security; 3) improvements should help all generations and not pit generations against one another; 4) risk-free disability insurance protection for workers and their dependents, survivors insurance for spouses and children of workers, and benefits for adults living with severe disabilities should be continued.

For further information contact Kay Bengston (202) 626-7942.

Economic Policy Institute

1660 L STREET, NW • SUITE 1200 • WASHINGTON, DC 20036 • 202/775-8810 • FAX 202/775-0819

MAKING SOCIAL SECURITY WORK

Statement by Jeff Faux, President, Economic Policy Institute
to the White House Conference on Social Security
December 8, 1998, Washington, DC

What's the Problem? There is enough money in the Social Security Trust Fund to cover all benefits through the year 2032. After that, the 75-year projections of the trustees show that 65 to 75 percent of benefits will be covered.

This projected shortfall is *not* a result of fewer workers having to support more retirees. (Projected worker incomes from rising productivity will more than offset the decline in the worker/retiree ratio.) Roughly two-thirds of the projected shortfall is a result of people living longer. About one-third is a result of the pessimistic assumption that economic growth over the next 75 years will slow down by half.

How Big Is the Shortfall? The increased cost of Social Security over the next 75 years will amount to about 2.5 percent of GDP. This is not an extraordinary economic burden. In comparison, increased education spending between 1946 and 1966 cost almost 3 percent of GDP. And increases in Social Security taxes between 1960 and 1995 amounted to roughly 2.5 percent of GDP. Throughout this period, economic growth continued, living standards rose, and we were able to finance the Cold War.

From 2020 to 2030, the trust fund will have to cash roughly \$2.8 trillion of the Treasury bonds that make up its surplus. If not prepared for ahead of time, this could create a problem for the Treasury. But given the fact that the nation's GDP will have risen from \$8 trillion in 1997 to \$24 trillion in 2020 and to \$38 trillion in 2030, we will surely have the resources to handle it. In any event, the Social Security system is no more responsible for the national debt than were private investors who bought Treasury bonds and now want to cash them in to finance their retirement.

The Solution. One hundred percent of the shortfall can be covered as follows:

- Applying to the Social Security projections technical improvements in the forecasting of prices that have already been made by the Bureau of Labor Statistics but that have not yet been incorporated into the projections. (13 percent)
- Raising the "cap" on taxable wages back to the level, relative to all wages, at which it stood in the early 1980s – \$97,000 in today's dollars. This would also entail raising the cap on benefit payments. (25 percent)

- A small increase in the payroll tax, indexed to the increase in longevity. The increase needed would be 0.02 percent annually for both the employer and employee contribution. (64 percent)

Why Index the Payroll Tax? That Americans will be living longer is good news. But it will mean spending more years on Social Security, which will cost more. The choice is cutting benefits or paying a little more in taxes. Cutting benefits would mean living longer at a lower living standard, and would be particularly hard for the 42 percent of the elderly whom Social Security lifts out of poverty. Even in the trustees' pessimistic projections, real wages will rise 1.1 percent per year, making a tax increase of 0.02 percent a tiny price to pay to assure workers full benefits while they are living longer.

The Privatization Illusion. Citing annual stock market gains of 7 percent over the last 75 years, many claim that workers could get much higher returns than the system now provides by investing their Social Security contributions themselves. This is wrong, for the following reasons:

If the projected growth rate of the economy declines by half, as the Social Security trustees assume, the projected returns from the stock market must also decline. A stock market consistent with the Social Security projections would generate a return of about 3.5 percent. But stocks are highly risky. A typical investment portfolio is therefore more likely to have a 50/50 split between stocks and bonds. Even if we assume a 4 percent return from stocks, a balanced portfolio would return about 3.5 percent. The management fees for administering private accounts are estimated by the President's Advisory Council on Social Security to come to 1 percent of the accounts' value, bringing us to a typical return for a privatized account of about 2.5 percent.

Current contributions support current retirees. If contributions are diverted to private investment accounts, taxes will have to be raised or other government benefits cut in order to pay for current benefits. This would cost taxpayers the equivalent of another 1 percent of the Social Security contributions, putting the net returns from a privatized system even lower than the 2 to 3.5 percent return (exact returns depend on marital status and average earnings) that most workers get from the Social Security system, including the value of disability and survivors insurance. (See Dean Baker, *The Full Value of Social Security*, Economic Policy Institute and Century Foundation, 1998.)

Investing in the stock market is risky, and many workers would not see average returns. In addition, there is a potential for fraud and abuse, as well as the added costs of a new bureaucracy to administer a system, involving tens of millions of small accounts.

The Social Security system is not in crisis, and does not need radical surgery. Like any other program, it needs to be modified to adjust to changing conditions. The responsible approach is to tell the American people the truth, and to trust their common sense. Future retirees will have the great fortune to live longer than their parents. This will require a modest increase in current contributions in order to assure a decent level of benefits during their longer retirement.



1320 18th Street, NW, Suite 200, Washington, D.C. 20036

PHONE: 202-785-0266

FAX: 202-785-0261

**Statement of
Peter J. Ferrara
General Counsel and Chief Economist, Americans for Tax Reform
Senior Fellow, Cato Institute**

The biggest problem for Social Security is not that it is inevitably headed for bankruptcy. The biggest problem is that even if it somehow pays all its promised benefits, it has become a bad deal for working people today, depriving them of the vastly greater prosperity they would enjoy if they could save and invest their funds through the private sector instead.

Take the example of a husband and wife entering the work force in 1985, each earning the average income each year for their entire careers. Projections in A New Deal for Social Security, a new book from Cato I co-authored with Michael Tanner, show what would happen if this couple could save and invest in the private sector what they and their employers would otherwise pay into Social Security.

At a 4% real return, which is just over half the average return earned in the stock market over the last 70 years or so, the couple would retire with almost \$1 million in today's 1998 dollars. That fund would pay them more out of continuing investment returns alone than Social Security promises, but cannot pay, while allowing them to leave the almost \$1 million to their children. Or the funds could be used to buy an annuity paying them over three times what Social Security promises, but cannot pay.

At a 6% real return on investment, the couple would retire with \$1.6 million in today's dollars. That fund would pay them about 3 times as much as promised by Social Security, while allowing them to leave the entire \$1.6 million to their children. Or it would finance an annuity paying them 7 times what Social Security promises, but cannot pay.

The book shows that the same is true for all workers today of all income levels, family combinations, and ethnic groups - rich or poor, black or white, married or single, with children or without, one earner couple or two earner couple. They all would receive much higher benefits saving and investing in the private sector through individual accounts rather than Social Security.

Even low income workers who receive special subsidies through Social Security would receive much more in benefits from the personal investment accounts. Take the example of a low income couple with 2 children. Husband and wife enter the work force in 1985 and each earn the equivalent of today's minimum wage each year throughout their careers. Through the personal investment account, at a 4% real return, the couple would retire with a fund of \$375,400 in today's dollars. The couple could use this fund to buy an

annuity that would pay them about 2.5 times (2.44) what Social Security promises but cannot pay. Or the couple could use part of the **fund** to buy an annuity matching what Social Security promises, while leaving \$220,000 to their children.

At a 6% real return, this low income couple would retire with a trust fund of almost \$700,000 (\$693,395) in today's 1998 dollars. That fund would pay them more than twice (2.26 times) what Social Security promises out of the continuing returns alone, while allowing them to leave almost \$700,000 to their children. Or they could use the **funds** to buy an annuity that would pay them about 5 ½ times (5.46) what Social Security promises but cannot pay.

These vastly greater benefits would result not because the private sector would make better investments than Social Security. They result because Social Security makes no real investments at all. Social Security is a tax and redistribution scheme where almost all taxes paid today are immediately paid out to current beneficiaries on a pay-as-you-go basis. The private invested system, by contrast, pours its **funds** into real private capital investment that produces new income and wealth. That increased income and wealth is what finances the far higher returns and benefits of the private system.

The huge advantage for private investments leaves plenty of room for the risk of poor market performance for sustained periods. Even at the returns earned during the worst periods of market investment performance, workers would retire with much higher benefits than Social Security promises but cannot pay. This analysis also leaves plenty of room for administrative costs, which market data shows would be less than 50 basis points.

No reform plan can be supported that makes Social Security an even worse deal for today's workers. Any tax increase or benefit reduction to address Social Security's long term financial problems would do that. The only way out is to allow workers a personal investment account option for at least part of Social Security. Instead of paying more and getting less, such an option would allow workers to pay less and get more.

Such a system can be designed to make MI market investment returns accessible even for unsophisticated workers. Workers would simply pick a major investment firm from a list of firms approved and regulated by the government. These firms would then pick the particular investments for the workers.

Denying working people a personal investment account option to Social Security deprives them of the **full** economic value of their earnings. For what they and their employers are paying into Social Security now, they would get 3 to 6 times the benefits through a personal investment account, at just standard or even below average market investment returns. Forcing working people to lose these benefits is not progressivism.

Such an investment account option is most important for lower income workers. These workers cannot afford higher taxes now or lower benefits in retirement. They most need the higher benefits that would result from the private savings and investment.

Workers around the world are increasingly enjoying the freedom to choose personal savings and investment accounts for part or all of Social Security. Why not American workers?

As a lifelong Republican, I commend President Clinton for putting this issue at the top of the national agenda.



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599 Canal Street Lawrence, MA 01840

Viewpoint on Social Security Reform

By Daniel B. Fisher, MD, PhD

Executive Director, National Empowerment Ct.

We are at a historic cross roads. The debate regarding Social Security Reform is really a debate regarding the type of society we see for the 21st Century. Do we consider ourselves all members of one society and one community with a common purpose or do we see ourselves as a collection of individuals each looking after our individual survival. For over 60 years Social Security has kept the promise of a minimal level of financial security for all Americans. It has been the cornerstone of American's sense of community. I am concerned that privatization of Social Security through the creation of individual retirement accounts would decrease the benefits distributed to people of low income, women, and people with disabilities.

A shift towards a defined contribution to retirement accounts as opposed to defined guaranteed benefits would most severely affect people with disabilities, minor children whose working parent has died, widowed spouses to name a few. It would mean that these groups would receive lowered benefits. In addition, the benefits would not include a COLA and they would be less secure. People with disabilities are not able to pay into Social Security an amount equivalent to the benefit they need to survive on. The present system adjusts for this lower contribution by sharing some of the contributions made by able-workers and higher-income workers. If we diverted significant percentage of contributions by higher income workers into individual accounts there would be less money available.

Therefore, it is not in the interests of people with disabilities, people who could suffer a disability, women, surviving children or widows to have Social Security privatized through a shift to individual retirement accounts. Indeed, when one considers the societal costs associated with the return to institutional care which would result in lowered benefits to people with disabilities, the cost of privatization is great.

An alternative means of improving the solvency of Social Security is to reduce the barriers to people with disabilities returning to work. The Administration's proposal in the upcoming budget year to make health insurance available to people who are working while disabled would help greatly in this regard. The President's proposal would help people with episodic illnesses such as mental illness, AIDS etc. return to work by giving them an opportunity to stay on Medicare or Medicaid even after they return to work. Since loss of health insurance upon return to work is a major barrier for people who are recovering from a disability, this proposal would greatly assist people returning to work. In so doing, it would shift people from the role of benefitee to contributor to Social Security, thereby improving solvency.

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AMERICAN ACADEMY of ACTUARIES

Ron Gebhardtsbauer, Senior Pension Fellow

1. **Social Security has been very successful at reducing poverty among the elderly. However, the Trust Funds could be exhausted around 2032**, at which point **Social Security's** tax income will cover only 75% of the benefits (using the Intermediate Assumptions).
2. **US Budget problems come much sooner: In 2008**, when the first baby boomers reach age 62, Social Security's net income will decrease dramatically, which can quickly cause deficits.
3. **If we fix Social Security soon** while the sun is out:
 - a. Fixes can be less drastic than if made later (since more people are part of the solution),
 - b. Changes can be phased in gradually (which avoids notches),
 - c. We can plan ahead for the changes,
 - d. It will restore confidence in Social Security again.
4. **No painless options:** No option for solving Social Security's financial problems is painless. Even privatization requires increased taxes or benefit cuts. The attached page lists various options and how much of Social Security's financial problem each fixes, along with some pros and cons (also see my speech with Vice President Gore).
5. **Public Opinion:** Based on polls from Americans Discuss Social Security, the options most disliked are benefit cuts, followed by tax increases. The most favored options are:
 - a. **Covering new employees of state and local governments** that aren't already in Social Security.
 - b. **Raising the taxable wage base** quickly from \$68,400 to \$90,000 (or more). Even people with incomes over \$100,000 opted for this over benefit cuts.
 - c. **Means Test** - large benefit reductions for retirees with incomes over a certain threshold (Concord Coalition suggested \$40,000 in the early 1990's, but I get the sense that people had a much higher threshold in mind). *Note: A means test can discourage saving and encourage abuse. It would change Social Security from a popular universal program into welfare.*
 - d. **Raising the retirement age** for full benefits was, surprisingly, next (**although** it had less than 50% support). Future retirees will **still** get benefits for more years than current retirees and we are **healthier** at older ages now. With shortages in the labor force in the coming decades, employers may want their older employees to stay on (at least part-time). *Note: Unless the retirement age continues to increase with life spans, Social Security will be out of balance in 20 years or so (unless automatic tax increases or automatic benefit decreases are scheduled continually into the future).*
6. **How can Social Security's surplus income be really saved?**
 - a. **Use it to reduce National Debt (e.g. FY1998).** Congress would have to balance the budget without Social Security. (E.g., Rep. Livingston's proposal or a balanced budget rule)
 - b. **Invest it in private sector.** With a higher return, Social Security becomes cheaper (after an expensive transition), *but government becomes more expensive if a carve-out is used.*
 - i. **Trust Funds** can get the best return and spread the risk better, but politics could **affect** investment decisions. Two Federal agencies already invest in stocks (Fed TSP & PBGC)
 - ii. **Individual Accounts** put more risk on individuals and have implementation problems. Carve-outs could force more benefit cuts. Add-ons are like a tax increase, unless voluntary. Great Britain allows voluntary contracting out of the 2nd tier, and has been fairly **successful**, except for sales abuses and high expenses. The 1st tier is a flat \$400/month benefit.
 - c. **PAYGO:** Alternatively, Social Security could return to pay as you go, by delaying reforms until 20 13, when the money is needed. However, then future generations would have to pay more in taxes than the current generation, unless benefits were decreased a little more or the retirement age was increased a little more.

The Gerontological Society of America

1030 15th Street NW, Suite 250

Washington, DC 20005 1503

Voice: **(202)** 842-1275, E-mail: geron@geron.org

To: President Clinton, Congress, and the White House Conference on Social Security
From: Lou Glasse, Carroll Estes, and Timothy Smeeding on behalf of the GSA Task Force on Older Women's Project, "Older Women and Social Security."

We are pleased to present you with an introduction to our project, funded by The Retirement Research Foundation of Chicago, which will be assessing the impact of emerging Social Security reform packages on women. This is an opportunity to both put the Social Security system on more solid financial ground and to make it more responsive to the needs of its largest constituency—older women. In the space allotted, we will present a few of the current and expected future facts about women and the way that they guide our thinking about Social Security reform.

I. Facts

- ◆ Women make up over 60 percent of all Social Security beneficiaries. More than two in three persons age 75 and over, and almost three in four persons 85 and older, are women. Because the fraction of the population 85 and over are the fastest growing age group among the old, their economic needs are of particular importance.
- ◆ Older women rely more heavily on Social Security than do men. Elderly unmarried women, including widows, divorcees, and never married women get over half of their incomes from Social Security. This fraction rises with age, rises among older women living alone, and also rises as overall incomes decline. For instance, 80-84 year old widows with below median incomes rely on Social Security for more than 80 percent of those incomes.
- ◆ Older women live in a much less advantageous economic situation than do older men. Three of every four poor elderly persons are women. Poverty rates are highest among divorced women, widowed women, and never married women - all 20 percent or more - compared to a poverty rate of 5 percent for married women. Moreover, if we follow the National Academy of Science recommendations and adjust incomes for taxes, in-kind benefits and for out-of-pocket expenses for health care, the poverty rate for all older women living alone rises to 31.5 percent.
- ◆ As times change and women's work histories improve, more women will collect private pensions and Social Security benefits based on their own earnings. Still, the Social Security Administration projects that the percentage of all women beneficiaries who receive benefits based on their own earnings will rise only from 37 percent in 2000 to 56 percent in 2030. Hence, nearly half of all elderly women will continue to rely on their husband's Social Security benefits. Future older women will rely more heavily on their own pensions, and hopefully, on their husband's pensions under joint and survivor's options. However, women are far less likely than men to qualify for private pensions (30 percent vs. 48 percent, in 1994). Even when women do receive their own pensions, they qualify for benefits that are only about half the median benefits received by men. Finally, about one third of husbands still do not elect joint and survivor options for their private pensions upon retirement, despite federal legislation to increase such determinations.

- ◆ Social Security benefits provide inflation adjusted income protection not found in other types of pensions which are fixed in nominal terms and which therefore depreciate rapidly over the 20 year or longer period of older women's retirement lives. From December 1982 to September 1988, the Bureau of Labor Statistics experimental price index for elderly consumers rose 73.9 percent compared to a 63.5 percent increase in the official consumer price index used to adjust Social Security benefits for inflation mainly because of higher costs for health care.

II. Reform Implications

These facts and others, which will be gathered as part of our project, suggest that the following Social Security reform issues are most salient to older women:

1. Benefit adequacy, retirement income security, and the social insurance features of Social Security must be maintained or improved. Social Security is the only progressive formula, defined benefit, inflation adjusted income source available to women, particularly widowed and divorced spouses, disabled workers, and mothers with children of deceased workers. Above all else, this fact cannot be compromised by reform schemes which put greater weight on individually controlled, defined contribution reform options for Social Security.

2. Social Security survivors' benefits are the key feature of older women's economic well being for the 15.3 years in old age the average female survivor spends as a widow.

Survivors' benefits are crucial to the economic well being of spouses with lower lifetime earnings. Today, 74 percent of elderly widows receive benefits based on the earnings of their deceased spouse. While this fraction will most certainly decline in the future, about half of widows will still depend largely on their husband's benefits in old age. Survivors' benefits should be strengthened, not weakened by Social Security reform. We are opposed to any plan which allows withdrawal of Social Security funds prior to retirement or which does not mandate considerable benefits for divorced or surviving spouses. We favor plans that would provide a lower initial spouse benefit upon retirement in return for a higher survivor benefit upon death of a spouse.

3. The effect of Social Security reform on older women must be considered in the context of other likely changes in private pensions and Medicare that will take place over the next few decades. The already high burden of out of pocket health care costs for older women will likely rise relative to their incomes, thus putting greater pressure on Social Security to help pay these costs, particularly for low income women. Steps should also be taken to further strengthen survivors benefits options in private pensions that mainly benefit older women.

4. Inflation protection is an important component of economic security for older women, particularly very elderly women who will continue to rely heavily on Social Security as their major income source. Social Security reformers should be wary of any formula which arbitrarily reduces cost of living adjustment without consideration of the cost of goods and services purchased by the elderly, particularly by the oldest of the old who are predominantly women. In fact, Social Security reformers should consider adoption of a cost of living index that is explicitly tailored to older Americans and their consumption needs.

We fully realize that Social Security reform will inevitably require benefit reductions or tax increases. However these changes are structured, we ask that you consider their effect on older women and the social insurance, benefit adequacy, and retirement income security concerns which they and their families hold most dear.

Towards a Diversified, Secure, and Adequate Retirement Income for All Americans

for the
White House Conference on Social Security Reform
December 8, 1998

The American retirement model is good news. Unlike most nations that mandate retirement at certain ages, many at 60, age discrimination laws protect older Americans, workplaces tailor pension plans, and Social Security helps 55% of the nation's elderly out of poverty, most of whom are women. These provisions, as do others, point to the most salient aspect of the U.S. retirement income security -- a vision of portfolio diversity.

U.S. workers depend on 1.) risky and rewarding individual choices; 2.) productive pacts and pensions between workers and employers; and, 3.) a secure base of universal social insurance. Therefore, we have a retirement income portfolio that thrives not only on economic productivity, but individual willingness and ability to save and work, and a strong national unity between generations and classes. U.S. retirement income comes from three sources: individual accounts that are highly costly to administer but can yield high returns from financial markets; insured employer plans that depend on employer and financial market health; and, third, from Social Security-- a universal system backed by the full faith and credit of the U.S. government. Too many of the planet's pensions rely on just one source of retirement income. For example, the Greeks and Italians depend only on their government plans, the Chileans on financial markets.

Aiming to make a good thing better, I have assembled some of the most popular options to amend Social Security into four categories. The criteria for selecting the best and rejecting others are to secure retirement income with portfolio diversity with minimal cost, disruption, and inefficiency.

Below are the 1.) Best, 2.) Acceptable, 3.) Unacceptable, and 4.) Diversionary options to solve the 2.19% of payroll deficit in Social Security's 75-year forecast.

Achieving Social Security Solvency and Diversity, Efficiency and Adequacy	
	Percent of Deficit Solved
A. BEST	
1. Eliminate cap on employer contributions to cover 90% of all income (cap goes to \$97,000 from \$68,400)	25%
2. Raise payroll tax by .04% per year while indexing the earned income tax credit	64%
3. Use the CBO projections on growth (SSA uses a 1.7% growth assumption the CBO uses 2.0%)	33%
B. ACCEPTABLE, BUT NOT SO GREAT	
4. Correct CPI by BLS criteria (hurts long livers)	14%
5. Give Social Security revenue to Social Security – now it goes to the Hospital Insurance (hurts Medicare)	10%
6. Raise normal retirement age to 67 in 2011 only if disability criteria is loosened to include sector unemployment (this costs .004%)	22%
C. UNACCEPTABLE VIOLATORS OF PORTFOLIO DIVERSITY, EFFICIENCY OR MINIMAL COST CRITERIA	
7. Privatization is too costly, disruptive, and violates diversity	N/A
8. Shifting 40% of trust funds out of government bonds to stocks by 2014 (this puts too much of retirement income assets in the financial markets.)	12%
D. DIVERSIONARY, NOT WORTH THE FIGHT OR TOO VAGUE	
9. Extend Coverage to state and local employees	10%
10. Divert the federal budget surplus to Social Security (too vague – the surpluses might not materialize)	64%
11. Tax all unearned income (capital gains and interest). (This will invite class warfare and moves away from the pension-for-work model.)	145%

Sources: I depended to a great extent on my own papers and Congressional testimonies and on Dean Baker's calculation of the revenue contribution of surpluses and tax increases in his latest Economic Policy Institute paper "Saving Social Security in Three Steps" (Nov. 1998); the Report of the 1994-95 Advisory Council on Social Security; the Bipartisan Commission Final Report on Entitlement and Tax Reform, Dec. 1994, Robert Ball's many communications, and estimates about the revenue impact on taxing unearned income comes from the AFL-CIO in Washington DC.



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EDWARD M. GRAMLICH
MEMBER OF THE BOARD

Statement of Edward M. Gramlich
on Social Security Reform
The White House Conference on Social Security
December 8, 1998

I am pleased to comment on Social Security reform. I speak for myself, as past chair of the 1994-96 Quadrennial Advisory Council on Social Security, and not in my current status as a member of the Federal Reserve Board.

Let me first engage in some retrospection. At the time our Advisory Council released its report two years ago, there was much publicity about the fact that we couldn't agree on a single plan, but had three separate approaches. Since that time there has been a notable coalescence around the sensible middle-ground approach I advocated. After our report, both The Committee on Economic Development (CED) and Senator Moynihan came out with plans that were similar to my plan and adopted some of its features. Earlier this year the National commission on Retirement Policy (NCRP) came out with a similar plan, again adopting some features of my plan. In political terms the center seems to be holding—since our report there has been increased interest in sensible middle-ground approaches, and I would encourage the President and Congress to work in that direction.

In trying to reform Social Security, I have stressed the importance of two goals. The first is to make affordable the important social protections of this program that have greatly reduced aged poverty and the human costs of work disabilities. The second is to add new national saving for retirement—both to help individuals maintain their own standard of living in retirement and to build up the nation's capital stock in advance of the baby boom retirement crunch.

My compromise plan, called the Individual Accounts (IA) Plan, achieves both goals. It preserves the important social protections of Social Security and still achieves long term financial balance in the system by what might be called kind and gentle benefit cuts. Most of the cuts would be felt by high wage workers, with disabled and low wage workers being largely protected from cuts. Unlike the other two plans proposed in the Advisory Council report, there would be no reliance at all on the stock market to finance Social Security benefits, and no worsening of the finances of the Health Insurance Trust Fund.

The IA plan includes some technical changes such as including all state and local new hires in Social Security and applying consistent income tax treatment to Social Security benefits. These changes go some way to eliminating Social Security's actuarial deficit.

Then, beginning in the 21st century, two other measures would take effect. They would be accomplished by a slight increase in the normal retirement age for all workers, in line with the

expected growth in overall life expectancy (also proposed by the CED, Senator Moynihan, and the NCRP). There would also be a slight change in the benefit formula to reduce the growth of Social Security benefits for high wage workers (also proposed by the CED and NCRP). Both of these changes would be phased in very gradually to avoid actual benefit cuts for present retirees and “notches” in the benefit schedule (instances when younger workers with the same earnings records get lower real benefits than older workers). The result of all these changes would be a modest reduction in the overall real growth of Social Security benefits over time. When combined with the rising number of retirees, the share of the nation’s output devoted to Social Security spending would be approximately the same as at present, limiting this part of the impending explosion in future entitlement spending.

These benefit cuts alone would mean that high wage workers would not experience rising real benefits as their real wages grow, so I would supplement these changes with another measure to raise overall retirement (and national) saving. Workers would be required to contribute an extra 1.6 percent of their pay to newly-created individual accounts. These accounts would be owned by workers but centrally managed. Workers would be able to allocate their funds among five to ten broad mutual or index funds covering stocks and bonds. Central management of the funds would cut down the risk that funds would be invested unwisely, would cut administrative costs, and would mean that Wall Street firms would not find these individual accounts a financial bonanza. The funds would be converted to real annuities on retirement, to protect against inflation and the chance that retirees would overspend in their early retirement years.

Some have objected to these add-on individual accounts because they seem like a new tax. First off, I should point out that since the accounts will be returned to the individual in the future (with investment earnings), they are very different from a tax. Indeed, if people who already have significant pension saving beyond Social Security want to reduce their private contributions and preserve their disposable income, there is nothing to stop them. Finally, as a further sweetener it may be possible to let those who can certify the existence of their own private pensions opt out of these add-on accounts, and thus save Social Security the administrative costs. Whatever is done, the basic idea is to raise national saving for the people who do not have much pension saving beyond Social Security, and this scheme seems well-suited for that.

The Social Security and pension changes that I have recommended would mean that approximately the presently scheduled level of benefits would be paid to all wage classes of workers, of all ages. The difference between the outcome and present law is that under this plan these benefits would be financed, as they are not under present law. The changes would eliminate Social Security’s long run financial debt while still holding together the important retirement safety net provided by Social Security. They would significantly raise the return on invested contributions for younger workers. And, the changes would move beyond the present pay-as-you-go financing scheme, by providing new saving to build up the nation’s capital stock in advance of the baby boom retirement crunch.



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The Heritage Foundation Proposal for Reforming Social Security

The Social Security system faces two severe crises.

First, it faces a funding crisis: the system simply cannot pay promised benefits to future retirees without major changes in the program..

Second, although the system currently provides reasonably good insurance benefits for the disabled and the dependents of deceased workers, most workers face their own Social Security crisis because the program typically is a very poor method of saving for retirement. Indeed, the retirement income generated from Social Security contributions generally is far below the amount these same contributions would generate in the safest private investments or even in Treasury bills. Worse still, the rate of return in Social Security is falling. Moreover Social Security provides only a monthly check, and not a cash nest egg. So the program does not give retirees the security of a savings account, and it shortchanges the heirs of workers and retirees who die relatively young.

Social Security needs to be reformed to deal with these twin crises. The reform should do two things: secure the ability of the system to deliver on its promises to beneficiaries, and enable today's workers to look forward to more income and wealth in retirement. To do this we propose the following reforms:

- 1) Enact a Social Security contract between the government and citizens, specifying the benefits that today's and future retirees will receive (currently the Supreme Court says there is no right to benefits).
- 2) Concentrate immediately on securing the retirement years of working Americans by raising the retirement income and savings they can expect: make no changes in Social Security's disability and dependents program.
- 3) Raise retirement income, and add a true savings element to Social Security, by allowing workers to place a portion of their payroll taxes now devoted to retirement income (but not disability etc.) into a personal savings/investment retirement account. No worker would be required to open such an account. Workers who exercised this choice would not receive the Social Security benefits associated with the portion of their taxes they placed in a private account, but they would receive the Social Security benefits financed by the rest of their payroll taxes.

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- 4) Require all personal retirement accounts to include an annuity at least equivalent to the traditional Social Security benefits foregone by the worker. The annuity would have to be insured – with back-up insurance provided by the federal government.
- 5) All Americans who opened a personal retirement account with a portion of their payroll taxes would be entitled to a minimum benefit from the traditional Social Security system.

The New Century Alliance for Social Security

Statement of Roger Hickey - Director of the New Century Alliance for Social Security and Co-Director of the Institute for America's Future

On December 3, 1998, over 170 leaders of citizen organizations concerned about Social Security's future united to launch the New Century Alliance for Social Security. This Statement of Principles for Social Security reflects an important consensus from a diverse group of leaders. Our message: if a plan doesn't meet these principles, it doesn't *really* save Social Security.

A Statement of Principles for a New Century Alliance for Social Security

Social Security is vital to millions of Americans. For over sixty years Social Security's retirement, disability and survivors benefits have kept generations of people out of poverty and provided a secure base for middle class retirement. Most Americans will depend upon its portable, progressive and guaranteed retirement benefits and its social insurance protections to provide at least half of their income. We must all work to ensure that Americans of all ages will continue to be protected by Social Security from serious loss of income because of old age, disability or the death of a family's wage earner.

Congress and the President should work to strengthen the finances of Social Security for future generations. "Privatization" proposals to shift a portion of Social Security taxes to private investment accounts would inevitably require large cuts in Social Security's defined benefits and make retirement income overly dependent on the risks of the stock and bond markets.

We join together to insist that Social Security's central role in family income protection must not be compromised, and we endorse the following principles for Social Security reform:

- Social Security's benefit structure should remain universal and portable, guaranteeing monthly benefits that provide a decent income and are adjusted to keep up with inflation for as long as you live.
- Social Security must continue to provide risk-free disability insurance protection for workers and their dependents. It must also continue to provide survivors insurance for spouses and children of deceased workers, as well as continuing to provide benefits for those adults with severe disabilities who are dependents or survivors of their parents. These crucial insurance functions must continue without harmful benefit reductions.
- Beneficiaries who earned higher wages during their **worklife** should continue to receive benefits related to their earnings history, and Social Security should continue to replace a larger share of low-income workers' past earnings as a protection against poverty.
- We must take care that the impact of changes in the Social Security system not fall disproportionately on lower income groups, or on those whose **worklife** has been physically demanding. Any changes should not make the financing of Social Security any less progressive.

- Many privatization proposals finance the cost of private accounts partly by increasing the retirement age. Raising the age at which people can collect benefits is the equivalent of a benefit cut, with especially onerous impacts on those in physically challenging jobs or on groups with lower life expectancy.
- Basic benefit protections for women -who have lower lifetime earnings and more workforce absences because of care giving for children, parents or spouses – should be preserved and strengthened.
- While Social Security should continue as the foundation of our social insurance and retirement system we also need new policies to encourage employers to provide good pensions and to spur private savings. But this should be done in addition to, rather than at the expense of, the existing Social Security benefit structure.
- Private accounts should not be substituted for Social Security’s current defined benefits. Diversion of Social Security tax revenues to pay for private investment accounts makes the projected long term Social Security financing problems more severe, forcing deep benefit cuts, such as large increases in the retirement age, and weakens the system’s ability to follow the principles above. Social Security benefits should not be subject to market fluctuations.
- We should save Social Security first, instead of using budget surpluses to pay for tax cuts.

Appearing at our press conference on December 3 were these heads of citizen organizations (all signers of our Statement of Principles): **Rev. Jesse L. Jackson**, Rainbow/PUSH Coalition; **Kweisi Mfume**, NAACP; **John J. Sweeney**, AFL-CIO; **Patricia Ireland**, National Organization for Women; **Justin Dart**, Justice for All; **Brent Wilkes**, League of United Latin American Citizens; **Sharon Daly**, Catholic Charities, USA; **Hugh Price**, National Urban League; **Deborah Briceland-Betts**, Older Women’s League; **Dr. Jane E. Smith**, National Council of Negro Women; **Robert Greenstein**, Center on Budget and Policy Priorities; **Steve Protulis**, National Council of Senior Citizens; **Hans Riemer**, 2030 Center and **Roger Hickey**, Institute for America’s Future.

See statement of Liz Kramer, New Century Alliance for Social Security (may be listed as Institute for America’s Future), for full list of 170 statement signers.



**HUMAN
RIGHTS
CAMPAIGN**

STATEMENT ON SOCIAL SECURITY REFORM

The Social Security system is projected to be in deficit early in the next century unless changes are made to the program which will accommodate the influx of retirees from the baby boom generation. Maintaining current payroll tax levels and current benefit levels will lead to insolvency, although when that insolvency will occur depends on the growth rate of the economy. The pending crisis has led to various proposals to reform the Social Security system, including changing the program to a fully funded system whereby current beneficiaries are paid from their past savings. Another proposal would change the system from a defined benefits program to a defined contribution program, much like a 401(k) plan.

The Human Rights Campaign, the nation's largest gay and lesbian political organization, has not yet taken an official position on such systemic changes to the Social Security program. However, as an organization representing the interests of gay and lesbian people and many people living with HIV and AIDS, we do support policy changes that should be considered in any overall reform of the Social Security system. A national dialogue on Social Security reform should address the definition of "survivor" when a beneficiary dies. The discussion should also address the loss of health care benefits which occurs when a recipient of social security disability insurance (SSDI) or supplemental security income (SSI) returns to work.

The Human Rights Campaign's work to achieve equal treatment under the law for lesbian and gay people includes support for same-sex marriage. While this country's understanding of gay and lesbian family issues has grown over the years, the public, for now, seems not yet ready to define same-sex unions as marriage. However, public opinion polls clearly show growing support for granting gay and lesbian people the benefits of marriage that heterosexual couples enjoy. In 1996, for example, 46% of voters favored granting social security benefits to gay and lesbian partners'. In 1998, that figure jumped to 57%². We would hope that a discussion of Social Security reform would consider expanding the definition of "survivor" to encompass non-traditional relationships.

People with HIV disease, as their illness progresses, often become disabled and can not work. Therefore, many such people come to rely on public assistance in the form of SSI and SSDI payments. Recently, new treatments have led to dramatic improvements in the health of many (although certainly not all) people living with HIV. In theory, those who are feeling healthy once again should be able to return to the work force and end their reliance on public assistance.

¹Lake Research, Inc. September 1996

²Lake Snell Perry and Associates and American Viewpoint, November 1998

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919 18th Street NW, Suite 800 Washington, D.C. 20006
phone (202) 628 4160 fax (202) 347 5323 e-mail hrc@hrc.org



However, many people with HIV can not take advantage of their restored health because by returning to work they risk losing the Medicaid and Medicare coverage they gained through their eligibility for cash assistance. If they lose comprehensive insurance coverage, they lose access to the life saving therapies that keep them healthy in the first place.

Social Security reform should address this catch-22 for people with HIV disease and other disabling conditions. As people living with disabilities get off public assistance, they should be able to continue receiving Medicaid and Medicare benefits including prescription drugs and personal assistance services (PAS). In addition to helping people become contributing members of society, such reform would save money. If only 75,000 (1%) of the 7.5 million Americans with disabilities became successfully employed, savings in cash assistance would total \$3.5 billion over the work life of the individuals.

While these issues may not be central to the larger issue of keeping the Social Security system solvent, they are important issues to keep in mind as we engage in a broad discussion of reform. The Social Security system has meant longer and more healthy lives for millions of Americans. As we enter the next century, we hope not only to keep the system working, but to make the system better and more accessible to more people.

The Human Rights Campaign is the nation's largest national lesbian and gay political organization with members throughout the country. HRC effectively lobbies Congress, provides campaign support, and educates the public to ensure that lesbian and gay Americans can be open, honest, and safe at home, at work, and in the community.



NATIONAL CONFERENCE *of* STATE LEGISLATURES

The Forum for America's Ideas

Statement
Majority Leader John Hurson
Maryland House of Delegates
Co-Chair, NCSL Taskforce on Social Security Reform

Mr. President, The National Conference of State Legislatures commends you for beginning the arduous task of considering the alternatives available to reform Social Security. NCSL strongly urges your administration and the Congress to preserve the financial integrity of the Social Security system. The nation's state legislatures stand ready to assist in reform efforts.

The various proposals to reform Social Security would have both direct and indirect effects on state governments and their budgets. These policies should not be deliberated in a vacuum. Any proposals to reform or restructure Social Security should be examined for their potential impact on state and local governments. Costs to state and local governments associated with these proposals must also be estimated. State legislatures must be included in all reform discussions.

Among the reform proposals that would have direct impacts on states and their budgets are plans to mandate Social Security coverage for new state and local employees. While we agree that Social Security is a valuable program that provides benefits to the vast majority of Americans, state and local government retirement systems provide comparable and in many cases superior benefits to those provided by Social Security as well as flexibility to specific classifications of employees who are ill-suited to participate in Social Security. It is not fair to resolve the Social Security solvency problem at the expense of public employees who have saved, planned and bargained for their retirement in good faith and in partnership with their employers, state and local governments.

State legislatures share other concerns as well. Should the federal government chose to shift the income support aspects of Social Security to the states, the effect on state budgets would be dramatic. We are concerned that domestic discretionary programs and block grants would almost certainly be vulnerable in any search for additional federal money to beef up the Social Security trust fund. Finally, we are unclear about the consequences of privatization of Social Security on state budgets.

In order to examine these and other concerns, NCSL has established a taskforce on Social Security Reform comprised of legislators with expertise in state retirement systems, pensions, aging, public finance, health and white-collar crime. We are in the process of expanding NCSL's policy on Social Security to address additional state concerns about reform. It is critical that our nation adequately cares for the current aging population while planning for the retirement of baby boomers like me. State legislatures stand ready to work with you on the important challenge of **reforming** Social Security and integrating this with the concerns of the elderly including long term care.



NATIONAL CONFERENCE of STATE LEGISLATURES

The Forum for America's Ideas

Mandatory Coverage Would Raid Employee Benefits and Devastate State and Local Retirement Systems

In 1997, of a total U.S. workforce of approximately 151.9 million workers, about 145.3 million workers and an estimated 97 percent of all jobs in the United States are covered under Social Security and therefore subject to payroll taxes that finance Social Security benefits. **Of the three percent of workers not covered by Social Security 5.5 million of them are state and local government employees covered by a state and local government retirement plan that provides a retirement benefit that by law must meet minimum contribution and benefit level standards.** Roughly 25% of the total state and local workforce does not participate in Social Security and instead participates only in a state and local government retirement plan.

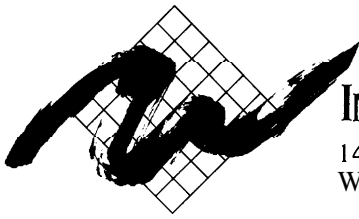
Who's not covered?

- 1.8 million public school teachers, or 48%, are not covered
- 3.9 million full-time state and local employees are not covered
- 76% of public safety personnel, including firefighters and police, are not covered.

The National Conference of State Legislatures opposes mandatory coverage of new state and local employees because it would be unfair to public employees and would have disastrous effects on state retirement systems and state budgets.

Employees with the highest level of retirement and health benefits would be the most devastated. The California State Teachers' Retirement System for example provides a total benefit of 20.5%, eight percent from employee contributions, and 11.5% from the employer. Similarly, the Massachusetts Teachers' Contributory Retirement System provides a combined benefit of 23%, of which the employer contribution is 14.5%. The Ohio Teachers Retirement System provides the highest benefit of 23.3% combined, 14% provided by the employer. It is highly unlikely that plans providing the highest level of benefit to their employees would be in a position to continue this level if forced to pay 6.2% into the Social Security Trust Fund. **Teachers, firefighters, police officers and other state and local employees who had no hand in creating the Social Security solvency problem would be forced to shoulder a massive burden in correcting it.**

Mandatory coverage would shift the insolvency problem to the states. The first year costs to public sector employers and employees of coverage for new hires would be over \$1.5 billion dollars in addition to the costs to employees to continue to participate in state and local sponsored retirement systems and the costs to state and local governments as employers to maintain these systems. **Annual cost to employers and employees for covering employees not currently covered would be over \$17 billion per year. Mandatory coverage is too high a price to pay for two years of additional Social Security solvency.**



INSTITUTE FOR WOMEN'S POLICY RESEARCH

1400 20th Street, NW, Suite 104
Washington, DC 20036

CELEBRATING OUR **TENTH ANNIVERSARY**

MAKING SOCIAL SECURITY WORK FOR WOMEN

Heidi Hartmann, Economist, Ph.D.
President and Director, Institute for Women's Policy Research, and
Chair, Working Group on Social Security
National Council of Women's Organizations

Social Security is a women's issue. Sixty percent of Social Security recipients are women. Women are not a side issue in the debate over how best to finance the current system and whether to replace it partially or totally with a system of individualized private accounts. Women are central to the debate. Women's views on financing and benefits are critical to the President's and Congress's ability to pass legislation changing Social Security in **1999** or any other year.

Why Individual Private Accounts Won't Work for Women

Women are extremely skeptical that individual private accounts will work for them to provide security in retirement. Women have lower earnings and live longer than men on average; therefore they have to stretch a smaller income over more years. They save less and have much less access to employment pensions. The security of Social Security as it's presently configured--the life-time guaranteed benefits, the higher returns for lower earning workers, the cost of living adjustments, and the spousal benefits (including benefits for widows and divorced women)--is critical to women. None of the privatization plans put forward provide all these assurances to women.

Moreover any transition to a system of pre-paid retirement benefits (saving while working to pay for retirement later) while the current pay-as-you-go system is still in place (today's workers pay for today's retirees' benefits), *requires the transition generations to pay for two systems at once*. This either requires more taxes or other sources of revenue to support both plans or requires that benefits be reduced for the existing plan. This double payment will be particularly disadvantageous to women, since they earn less and have less with which to make the payments. The benefit cuts will affect women disproportionately as well, since they are more dependent on Social Security benefits than are men and since more women than men are in or near poverty even with the current benefit levels.

“Carving out” a portion of the payroll tax to create a parallel structure of private individual savings accounts alongside the current insurance-based system is completely unnecessary since there are already many vehicles available for saving and since it can't be done without great sacrifice on the part of many. If what is desired is to achieve a higher return on part of the payroll taxes being collected, that can be done through investing part of the Social Security trust fund in equities; collective investment by the government is also much more cost effective administratively than administering millions of private accounts, many of them very small.

Both insurance-based systems and savings-based systems are valid forms of facing risk and financing retirement. Most families use both insurance and savings to protect against risks and provide for “rainy days.” Most do so now in planning for retirement, and there is no reason to think that our present societal balance between insurance and savings is wrong.

How to Reform Social Security to Better Meet Women’s Needs

Despite the many protections in Social Security that meet women’s needs, there are still ways in which the system’s rules, which are gender-neutral on their face, disadvantage women:

- o using 35 years of earnings to calculate benefits, when far fewer women than men have that many years of paid work--proposals to increase the number of years of earnings used will disadvantage women further;
- o not providing earnings credits for years taken away from paid work to provide family care;
- o inequities between one- and two-earner couples such that, for couples with the same total pre-retirement income, those who shared the responsibility for earning more equitably have lower retirement benefits from Social Security than more traditional families in which the husband worked for pay substantially more than the wife;
- o a drop of between 33 percent and 50 percent in the surviving spouse’s Social Security benefits relative to the couple’s benefits when both were alive, even though research shows the surviving spouse needs all but 20 percent of the couple’s previous income to maintain the same standard of living; the surviving spouse is most typically a woman and the drop in benefits is largest when she worked enough to contribute substantially to the family income.
- o the application of the “earnings test” (which requires benefit reductions when retirees earn more than the allowed amount) indiscriminately, regardless of how much prior work history the retiree has; some women who began work late may wish to keep working as long as they can to increase their future Social Security benefits;
- o the application of the “pension offset” rule indiscriminately, regardless of the size of the government pension and Social Security payments received; many female retired civil servants have small government pensions and small Social Security payments, yet Social Security payments are reduced accordingly. This gender-neutral rule affects women more adversely than men because women’s benefits are likely to be much smaller because of life-time low earnings; the loss of even these small benefits hurts them disproportionately. Also private pensions are not required to be offset against Social Security; men are more likely to hold private pensions than are women.

Few reform proposals on the table address any of these issues that affect the size of the benefits women receive. Improving women’s benefits is critical to reducing poverty among elderly women. Women over 65 are nearly twice as likely to be poor as men over 65 (13 percent vs. 7 percent), even though without Social Security women’s poverty rate would be exceptionally high, 52 percent. Social Security has worked well for women, but it could work even better.



INTERNATIONAL ASSOCIATION OF FIRE FIGHTERS®

ALFRED K. WHITEHEAD
General President

VINCENT J. BOLLON
General Secretary-Treasurer

STATEMENT OF THE INTERNATIONAL ASSOCIATION OF FIRE FIGHTERS ON REFORMING THE SOCIAL SECURITY SYSTEM

The International Association of Fire Fighters represents more than 225,000 professional fire fighters and emergency medical personnel across the nation. We are deeply committed to helping create a Social Security system that provides for the retirement security of all Americans. We firmly believe that people of diverse viewpoints can achieve a consensus on reforming Social Security in a way to assure the solvency of this vital program for generations to come.

We bring to this debate two very different vantage points. First, we represent tens of thousands of middle-income workers who have paid into the Social Security system for many years. These fire fighters and emergency medical personnel are counting on Social Security to provide a sizable piece of their retirement income. The safety and security of the system is vitally important to them and their families. Second, we represent thousands more workers who are not covered by Social Security, and instead solely pay into state and local government pensions that operate outside the Social Security system. We believe the integrity of the Social Security system must be maintained in a way that protects the retirement security of both of these groups.

For the group who are covered by Social Security, we believe the current basic structure of this worthwhile system must be maintained. For more than 60 years, Americans have benefited from this unique defined benefit system which guarantees workers and their dependents a lifetime annuity benefit. We believe proposals to privatize Social Security are misguided, and would wreak havoc with the retirement security of millions of Americans. We are well aware of the coming funding shortfall in the Social Security Trust Fund, but we firmly believe these funding issues can be addressed without sacrificing the basic premises of the existing system.

Two other proposals that have been offered are also troubling to America's fire fighters. We are particularly opposed to the notion of raising the retirement age. Because of the nature of their profession, most fire fighters retire at much earlier ages than most other workers. They already wait several years after their retirement from the fire service before becoming eligible for Social Security benefits. Increasing the length of this wait would be patently unfair to this dedicated group of American heroes. Moreover, the Labor Department and medical statistics show that the lifespan of fire fighters is significantly shorter than the general population. The years of demanding and traumatic physical work, stress and exposures take their toll, and lead to death at a younger age. For too many fire fighters, raising the retirement age would mean that they will never be able to collect benefits from a system that they paid into for many years.

The second proposal of concern is one shared by virtually all organizations representing working Americans. The 6.2% FICA tax is high enough already, and should not be increased. Middle income Americans simply should not be asked to shoulder any more of our nation's tax burden.

There are better ways to address the shortfall in the Trust Fund than dismantling the system, cutting benefits, or raising taxes on low and middle-income Americans. One option is to raise the payroll tax earnings cap. This regressive cap results in moderate and low income workers paying a higher percentage of their wages into the Social Security system than more affluent individuals. Raising the cap would be a fair way to generate additional revenue for the system.

Another option that we believe deserves serious consideration is allowing the Social Security trustees to invest a portion of the trust fund. Our experience with pension funds demonstrates that it is possible to abide by fiscally prudent investment principles and still realize significant returns. Having the Social Security trustees, rather than individual beneficiaries, invest the funds ensures that the risk is spread among a large pool of people so that no individual retiree need be adversely affected. Losses in a particular investment option or at a particular point in time are offset by gains in other investments and other times. We appreciate the concerns of those who fear investing retirement savings in the stock market, and we do not say that such investments should be undertaken lightly. Nevertheless, we believe that a conservative investment plan can add much needed revenue to the Trust Fund without appreciable risk to beneficiaries.

Universal Social Security Coverage

Equally important to protecting the retirement security of those workers who are included in Social Security is protecting the retirement security of those who are covered by state and local government pension plans that operate outside of the Social Security system. Due to their historic exclusion from Social Security, states and local governments were forced to establish separate pension plans that take into account the absence of Social Security benefits. Even when most public employees were allowed to join the system in the 1950s, thousands of fire departments were legally denied the option to join the system until 1994. As a result, more than 70% of the nation's public safety officers are not covered by Social Security, but are covered by state and local pension plans developed by their government employer. These public sector pension plans have been tailored to meet the unique needs of their employees. For example, plans covering public safety employees are crafted to account for the early retirement ages and high rates of disability common to fire fighting and law enforcement work.

Mandating Social Security coverage of public sector employees would force local governments to either abandon their specialized plans in favor of Social Security or retain their existing systems in addition to Social Security. Both options are untenable. Abandoning existing systems would jeopardize the retirement security of fire fighters who retire far too early to receive Social Security benefits. It could also threaten the health and safety of fire fighters who are forced to remain on the job after sustaining a serious injury since they would no longer have access to the disability pensions that take into account the unique physical demands of their job.

Retaining existing systems in addition to Social Security would cause even more disruption. It would result in a 6.2% pay cut for fire fighters and a 6.2% cut in fire department budgets. In addition to the fundamental unfairness of salvaging the Social Security trust fund on the backs of the public sector, imposing costs of this magnitude would also have severe consequences for the security and safety of fire fighters. Many fire departments are already struggling to comply with minimum health and safety requirements. This added burden could force them to reduce spending on equipment and training that is necessary to protect fire fighters' lives.

Neither option is feasible. States and localities must be allowed to maintain their unique retirement systems. For America's fire fighters, mandatory Social Security coverage is simply unacceptable as an option to salvage the Social Security Trust Fund.



December 3, 1998

Investment Company Institute
Statement on Social Security Reform

The Investment Company Institute is the national association of the American investment company industry. Its mutual fund members have assets of about \$4.5 trillion, accounting for approximately 95% of total industry assets, and have over 62 million shareholders. About 35% of these assets under management are held in retirement savings vehicles, including Individual Retirement Accounts (IRAs), 403(b) accounts and 401(k) plans.

The nation's retirement income policy rests on three programs – the Social Security system, individual savings (including traditional and Roth IRAs) and employer-sponsored retirement plans. These programs are designed to work in concert to enable Americans to enjoy a reasonable standard of living in retirement. Lawmakers should continue this three-pillar approach, ensure that each program continues to be effective and consider ways to increase the effectiveness and reach of each program. Assuring that Americans have available all necessary tools and avenues to save for their retirement is especially important in light of our nation's changing demographic profile. As a result of increases in longevity coupled with the aging of the baby boom generation, it is vital that the retirement needs of the population be adequately addressed.

The number one goal of lawmakers should be to ensure the long-term health of Social Security. The program's status as a universal system should be maintained, because it assures a floor benefit to the many Americans who have not had the benefit of an employer-sponsored retirement plan nor the ability to accrue substantial individual savings. Moreover, the restoration of fiscal soundness and fairness will renew Americans' faith and support of the program.

Many Social Security reform proposals would include an "individual savings account" component. Among the reasons offered in support of such an approach are that it would (1) increase the benefit the system could deliver to many individuals, and (2) introduce many individuals to the basic principles of savings and investing, which could have positive effects on the two remaining retirement income program -- individual savings and employer-sponsored plans.

If lawmakers determine that individual accounts contribute to the overall fiscal stability of the Social Security system and to improved retirement income and thus includes them as part of Social Security reform, they also should ensure that appropriate investor protections, similar to those found in the securities laws, are put in place. In addition, many participants in the Social Security system may have little or no experience with long-term investing. Thus, the creation of an individual account program needs to be preceded and accompanied by a significant public education campaign about the principles of investing, markets and risks, and product disclosure.

To assure an orderly transition to a new system, all individuals upon entering the system should first have their individual accounts invested in a government-sponsored fund or funds.¹ At some designated point in time, however, individuals should be given the option of electing investments in addition to government-run funds.” There are several reasons why this is an important feature. First, and perhaps most importantly, the additional choices will enable participants to select investments that meet their own objectives, taking into account factors such as age, income, and risk tolerance. Second, in the absence of such an option, government-managed pools quickly would become extremely large and, as a result, have unintended impact on the markets. Third, private managers would compete against the government funds on cost, performance and service, thus improving the system. Fourth, many private managers already have well-established infrastructure to handle similar accounts. It is important that the system be designed at the outset to accommodate privately managed accounts and that additional legislative or regulatory action not be required to permit them as options.

Finally, in considering Social Security reform in the context of improving retirement security, lawmakers also should assure that the other retirement programs are expanded and the rules governing them are simplified. The success of these programs, such as IRAs and employer-sponsored plans, will reduce the strains placed on Social Security. Enhancing these programs would be even more important if lawmakers determine not to establish an individual account component to Social Security.

¹ Such a system, might, for instance, be modeled upon the Federal Thrift Savings Plan, which offers a limited number of government-managed investment options.

² Such an option could be made available after, for example, an individual has participated in the system for a specified number of years, has worked for a specific number of consecutive quarters, or has accumulated a specific minimum dollar amount in his or her account.



National Organization for Women, Inc.

1000 16th Street, NW, Suite 700, Washington, DC 20036-5705 (202) 331-0066 FAX (202) 785-8576

STATEMENT OF NOW PRESIDENT PATRICIA IRELAND **ON SOCIAL SECURITY REFORM**

presented to the White House Conference on Social Security
December 8, 1998

The question before the president and Congress is simple: As we cross the bridge into the 21st century, are we willing to leave seniors -- especially older women -- behind?

The Republican Congress has already turned its back on the working poor by refusing to increase the minimum wage and pulled public assistance out from under the unemployed poor. Now conservatives in Congress are turning their attention not only to the elderly, but also to people with disabilities, widows and orphans. And we have no reason to believe that Social Security will survive a revamp by Livingston and Lott . . . unless our campaign to educate and mobilize the public is successful.

A chicken-little atmosphere has been created by the millions of Wall Street's dollars pushing for privatization of Social Security. (With the Social Security system taking in some \$1.5 billion a day, the possible fees for managing even a fraction of that amount are quite an incentive.) But what we are facing is not a crisis; it's a scam. The threat our families face is not the imminent collapse in Social Security funding, but a possible shortfall after 2032.

Congress created the current Social Security Trust Fund (financed by the excess of current payroll taxes over current payments to beneficiaries and currently growing by more than \$100 billion a year) to help the system meet the challenge of supporting baby boomers who will begin to retire in 2010. By 2032, when the Trust Funds may be drawn down to zero, the system will be purely pay-as-you-go -- as it was from the 1940s through the 1960s.

And those projections are based on a cautious economic forecast. The Social Security Trustees project an annual increase in GDP, adjusted for inflation, of only 1.6% from 1997 to 2029. Growth from 1960 to 1974 averaged 4.1%; from 1975 to 1996, it averaged 2.7%. Maintaining current levels of growth would sustain Social Security through the next century without any changes in the program.

Women must be particularly wary of the remedies proposed to "fix" Social Security. After a lifetime of work, women often find ourselves in dire economic straits during what was supposed to be our golden years. Women are a majority of all Social Security recipients, and roughly three out of four of the recipients over 85 are women. Older women are twice as likely as men to live in poverty. And senior women are twice as likely to depend on Social Security as their sole support.

Privatizers want Generation X to join their attacks against Social Security, but young people should beware. Seniors aren't the only ones who benefit from Social Security. Three million children and their sole caretaker parents depend on Social Security's death and disability benefits to survive. Indeed, Social Security's safety net is wide; without it, vulnerable people of all ages will suffer.

Under the cover of a fantasy funding crisis and in the name of reducing government, conservatives want to revise or even eliminate Social Security in ways that will essentially eliminate the safety net. We must use this opportunity to strengthen and make Social Security more equitable, especially for women.

There are many important benefits under the current program that would not be available under privatization. For instance, 63% of women on Social Security receive benefits based on their husband's earnings (wives or widows' benefits), while only 1.2% of men receive benefits based on their wife's earnings; 37% of these women had no earnings history and 26% had a higher benefit as a wife or widow than as an earner. Under a private plan, the progressive aspects of Social Security that provide a buffer for the poor would be lost, i.e. Social Security replaces a higher proportion of low-wage workers' income when they retire.

In addition, lifelong benefits are especially important to women, who after reaching 65 have a life expectancy of 19.2 years compared to 15.6 for men. What are older women supposed to do if they exhaust their assets before death? Adjustment for increases in cost of living under Social Security is also crucial to saving older women from poverty. Without such protection even a modest 3% inflation rate cuts the purchasing power of a \$100 benefit to \$74 over 10 years and to \$55 after 20 years. Inflation adjusted private annuities are non-existent in this country, and lifetime annuities, if available, would be prohibitively expensive.

As the economy fluctuates, so will the yields of privatized plans. Between 1965 and 1978 the market lost 45% of its value. Seniors need a steady income they can count on, not the booms and falls of the market. The impact on women would be disastrous.

While Social Security is an important program to seniors, the disabled and children who survive the death of a parent, there is a lot of room for improvement. Gender neutral language does not mean equality; women currently receive an average of only \$621 in monthly benefits, while men receive \$810.

We challenge Congress and the president to change the distribution of spousal and primary earner benefits to make them equitable so that homemakers are no longer penalized for choosing to work in the home instead of the paid workforce. We want the cap on social security taxes raised to remove the extra tax burden on secondary wage earners. And we want to establish earnings sharing that will allocate 50% of both spouses' combined earnings to each individual spouse, at long last allowing both spouses to have benefits in her or his own right. In other words, we want women's work – in and out of the home – to be counted and compensated.

NOW endorses the principles of the New Century Alliance for Social Security and the National Council of Women's Organization's committee on Social Security. NOW is a member organization of both coalitions.



**Statement from the Joint Center for Political and Economic Studies on
*Social Security Reform: What Proposed Changes Mean for African Americans***

Proposed changes in the Social Security system are of special concern to black Americans. In general, blacks are more dependent on Social Security payments for their retirement income than whites, since they are less likely to have private pensions and private savings to complement these payments. Proposals currently under consideration vary tremendously, as do their likely effectiveness and implications for black Americans.

The projected shortfall in Social Security funds can only be met by reducing benefits or increasing revenues-or a combination of the two. Proposals to reduce benefits include:

Proposals to increase taxation involve **taxing Social Security benefits** received by each individual in excess of the amounts paid into the system via FICA payroll deductions for the individual. This change would make the taxation of Social Security benefits comparable to that of other contributory defined-benefit pension plans. Their generally lower lifetime earnings and, therefore, greater likelihood of receiving benefits in excess of their contributions into the system suggest that this change might constitute a disproportionate burden on African Americans and other groups with lower-than-average lifetime earnings.

Speeding up the scheduled **increase in the eligibility age** would have a disproportionate impact on groups with shorter than average life expectancies, which again includes African Americans. Currently, the age of eligibility for benefits is scheduled to rise by the year 2022 from 65 years to 67 years for normal retirement and from 62 years to 65 years for early retirement. Any increase in eligibility age for Social Security benefits is more likely to hurt African American males, whose life expectancy from birth is only 65 years, than white males, whose life expectancy is 73 years.

Proposals to **reduce benefit payments** to the disabled would also put African Americans at a greater disadvantage. In 1995, although African Americans were only 12 percent of the U.S. population, they constituted 18 percent of disabled workers receiving Social Security benefits. On the other hand, making Social Security a means-tested program would make African Americans and other disproportionately poor populations more likely to receive benefits than wealthier subpopulations.

The alternative to reducing benefits is increasing revenues. Proposals to meet the shortfall by increasing revenues include:

Payroll tax revenues can be increased in two ways-by increasing the earnings base that is taxed (and keeping the tax rate unchanged), or by increasing the tax rate (and keeping the earnings base unchanged). The argument for increasing the taxable earnings base above the 1998 maximum of \$68,400 hinges on the fact that this current base results in taxing only 84.5 percent of all the wages from covered employment, a lower share than the historic high of 90 percent.

Keeping the maximum earnings base at \$68,400 and raising the payroll tax rate above the current 6.2 percent is the alternative way to increase the yield from FICA taxes. Increasing the earnings base would cause less of a tax bite for African Americans and other disproportionately poor populations than would raising the tax rate.

Expanding coverage to include all workers would primarily capture the 25 percent of full-time state and local government employees who are not covered today. Proposals for expanding coverage usually include a phase-in period to reduce the employer's cost. The implications for African Americans and others employed in jobs that become covered by Social Security in the near future depends on whether the FICA tax is subtracted from gross income in addition to the existing set of deductions, or whether it replaces another retirement plan for which contributions had been deducted previously from worker salaries.

The 1994-96 Advisory Council on Social Security, appointed by Donna Shalala, Secretary of the Department of Health and Human Services, to examine long-term financing for the system, made two main **privatization proposals**. Under one, the government would invest in the stock market a portion of all FICA taxes paid. Under the other, a private savings account would be established for each covered individual, and the funds in these accounts would be invested in equities held in mutual funds managed by the government. Other privatization proposals vary in the amount of FICA payments to be invested in the stock market, the nature and management of the private market investment accounts and the types of equities in which investments are made.

All of the numerous proposals to privatize part or all of the Social Security system involve potentially significant costs for transition and administration or management. No matter how these costs are borne within the system, they would reduce the net yields from stock market investments. In addition, proposals that create individual accounts but do not make private investment mandatory would enable lower-wage earners to tap into their nest eggs before retirement. This could result in some individuals not having adequate income upon retirement. Even if private investment is mandatory with private savings accounts, those who are very skilled at managing funds and timing withdrawals, or simply lucky, will have high incomes upon retirement; others not so skilled or lucky will have low retirement incomes.

The privatization of the Social Security program could transform all three categories of retirement income-Social Security, pensions, and private savings-into defined-contribution plans, that is, those in which the return is determined primarily by the contribution and how it has fared in the stock market. This would mean that the amount of one's monthly retirement income would depend entirely on the fluctuations of the market, with no guaranteed payment minimums. The greater the degree of privatization, the greater the uncertainty created for African Americans.

Excerpted from an issue brief on the subject by Wilhelmina A. Leigh and Cecilia A. Conrad.

The Shortcomings of Individual Accounts

Kilolo Kijakazi

Senior Policy Analyst

Center on Budget and Policy Priorities

Approaching demographic changes and the subsequent long-term shortfall in the Social Security trust funds have prompted a number of policymakers and analysts to propose diverting some part of Social Security payroll taxes into individual accounts. Proponents of this approach typically extol the potential for higher rates of returns on savings in these accounts in comparison to the rate of return to assets in the Social Security trust funds. When the shortcomings of individual accounts are understood, however, it becomes clear that individual accounts are problematic for workers in general and for low-wage workers in particular.

Transition Costs. Social Security is largely a “pay-as-you-go” system; the payroll taxes of workers currently in the labor force pay the benefits of current retirees. Thus any payroll taxes that would be diverted into individual accounts would have to be replaced in the Social Security trust funds by raising taxes, increasing the federal debt, or reducing benefits more than would otherwise be necessary. This is illustrated by the depth of the reductions in Social Security benefits required under one of the most painstakingly and thoughtfully designed partial privatization proposals — a bill developed by a private panel known as the National Commission on Retirement Policy and introduced by Senators Gregg and Breaux and Reps. Kolbe and Stenholm. The proposal shifts two percentage points of the Social Security payroll tax from the Social Security trust funds to individual accounts. By removing these payroll tax revenues from the trust funds, the plan deepens the shortfall in the trust funds from 2.19 percent of payroll to about four percent of payroll. To close this gap, the plan necessitates a reduction of 33 percent in the guaranteed Social Security benefit for the average-wage earner by 2025 and a 48 percent reduction by 2070.

Risk. Beneficiaries would receive income from their individual accounts to supplement their Social Security benefits. For some beneficiaries, this might offset the Social Security benefit reductions. But that would not be the case for other beneficiaries. How much a beneficiary would receive from his or her individual account would be uncertain. While Social Security provides a “defined” — or guaranteed — benefit, individual accounts are “defined contribution” plans in which the income the accounts generate is *not* guaranteed and is subject to market risk. How much income an individual would receive from an account would depend on how the markets performed, how lucky or wise the individual was in his or her investments, and on what portion of the account was consumed by administrative costs.

Administrative and Annuity Costs and Complexity. These costs cover the expense of managing individual accounts and of converting accounts to annuities when workers retire. Based on data from 401 (k) accounts, Henry Aaron of the Brookings Institution and Peter

Diamond of M.I.T. have estimated that the administrative costs for retirement accounts that are like IRAs or 401 (k)s would reduce the savings in these accounts by about 20 percent. Also, leading research shows an additional 15 to 20 percent of the value of an account is consumed by the cost of converting it to an annuity. Taking all of these costs into consideration, Aaron estimates that at least 30 percent and as much as 50 percent of the accumulated savings in privately managed individual accounts would be consumed. Another problem with individual accounts is that they could be difficult to administer, especially for small businesses. The Employee Benefit Research Institute warned that individual accounts cannot be administered like 401(k) plans, with contributions made each pay period through payroll deductions, without adding significant employer burdens, especially on the small-business sector.

Political Sustainability of Social Security with Individual Accounts. Plans that replace part of Social Security with individual accounts risk destabilizing Social Security over time. Under these plans, retired workers generally would receive considerably lower Social Security benefits than under current law. Because people would seem to be paying substantial payroll taxes to Social Security and getting back lower benefits from it, Social Security would likely appear to much of the middle class and more affluent segments of the population to be a bad deal. It would seem to provide them a poor rate of return compared to what their private accounts were paying. These disparate rates of return would, in substantial part reflect the fact that the Social Security trust funds would bear all of the burden of financing the benefits of workers who had already retired or worked for many years when the individual accounts were established. The trust funds also would bear all of the burden of providing more adequate benefits to low-income retirees, low-earning spouses and divorced women, and covering widows, the disabled and the children of disabled and deceased workers. Although not obvious to many workers, a sizeable portion of the Social Security payroll tax is essentially an insurance premium for the disability and life insurance protection that Social Security provides. The private accounts, by contrast, would bear *none* of these burdens, which would enable them to appear to be a better deal to the average worker. For these reasons, the broad-based support for Social Security would lessen and generate strong pressure to shift more payroll contributions from Social Security to individual accounts. Over time, such pressures would likely prove irresistible.

Low-Wage Workers. For several reasons, low-wage workers would be likely to receive lower rates of return from individual accounts than other workers. Some administrative costs are fixed dollar expenses and would consume a greater proportion of small accounts than large ones. Also lower-wage workers generally would not be able to afford as good investment advice, would have less investment experience, and would be more likely to preserve their limited savings by investing conservatively. It appears that claims individual accounts would lead to wealth accumulation for low-wage workers are not well founded.

Conclusion. Upon first glance, individual accounts may appear to be a potential solution to the long-term imbalance in the Social Security. A more in-depth understanding of individual accounts, however, brings to light inherent problems that could result in a lessening of retirement security for workers and their families. (See also “The Strengths of Social Security and the Best Course of Action for Preserving this System” by Wendell Primus of the Center on Budget and Policy Priorities.)

The New Century Alliance for Social Security

Statement of Liz Kramer

Deputy Director - Institute for America's Future; Policy Associate - 2030 Center

Attached is the list of signers of the Statement of Principles for the **New Century Alliance for Social Security**. For more information, see the statement by Roger Hickey, Director of the New Century Alliance for Social Security and Co-Director of the Institute for America's Future or visit www.ourfuture.org.

Hans Riemer, **2030 Center**; Norman Hill, **A. Philip Randolph Institute**; John Rother, **AARP**; Steve Kest, **ACORN**; John J. Sweeney, **AFLCIO**; Norman Lear, **Act III Communications**; Mike Farrell, **Actor, Producer**; Edith Fierst, **Advisory Council on Social Security, 1994-96**; Janice Weinman, **American Association of University Women**; Bobby L. Harnage, Sr., **American Federation of Government Employees**; Gerald W. McEntee, **American Federation of State County and Municipal Employees**; Sandra Feldman, **American Federation of Teachers**; Richard Foltin, **American Jewish Committee**; Joni Fritz, **American Network of Community Options and Resources**; Moe Biller, **American Postal Workers Union**; Robert Kuttner, **American Prospect**; Amy Isaacs, **Americans for Democratic Action**; Alicia Munnell, **Boston College**; John B. Williamson, **Boston College**; Robert Reich, **Brandeis University**; James H. Schulz, **Brandeis University**; John G. Guffey, **Calvert Social Investment Foundation**; Roger Hickey, **Campaign/Institute for America's Future**; Sharon Daly, **Catholic Charities USA**; Msgr. George Higgins, **Catholic University of America**; Alan W. Houseman, **Center for Law & Social Policy**; Linda Tarr-Whelan, **Center for Policy Alternatives**; Leslie R. Wolfe, **Center for Women's Policy Studies**; Rev. James E. Hug, SJ, **Center of Concern**; Robert Greenstein, **Center on Budget and Policy Priorities**; Wendell Primus, **Center on Budget and Policy Priorities**; David Liederman, **Child Welfare League of America**; Marian Wright Edelman, **Children's Defense Fund**; Kay Hollestelle, **Children's Foundation**; Ann K. Delorey, **Church Women United**; Richard Kirsch, **Citizen Action of New York**; Gloria Johnson, **Coalition of Labor Union Women**; Stuart Campbell, **Coalition on Human Needs**; Charles Knight, **Commonwealth Institute**; Morton Bahr, **Communication Workers of America**; Jerome Grossman, **Council for a Livable World**; David Langer, **David Langer Co. Actuaries**; Kelly Young, **Democrats 2000**; Amy L. Domini, **Domini Social Investments**; Thomas J. Downey, **Downey Chandler, Inc.**; Jeff Faux, **Economic Policy Institute**; Dean Baker, **Economist**; Ken Cook, **Environmental Working Group**; Michael McCloskey, **Environmentalist**; Ron Pollack, **Families USA Foundation**; Eleanor Smeal, **Feminist Majority**; Tom Schlesinger, **Financial Markets Center**; Sumner Rosen, **Five Boroughs Institute**; Msgr. Charles Fahey, **Fordham University**; Ruth Messinger, **Former Manhattan Borough President**; Berkley Bedell, **Former Member of Congress (IA)**; Ned Stowe, **Friends Committee On National Legislation**; Brent Blackwelder, **Friends of the Earth**; Roger Wilkins, **George Mason University**; Amitai Etzioni, **George Washington University**; Peter Edelman, **Georgetown Law Center**; Tim Fuller, **Gray Panthers**; Rabbi Michael Feinberg, **Greater NY Labor-Religion Coalition**; Elaine Bernard, **Harvard University**; James Medoff, **Harvard University**; Michael Sandel, **Harvard University**; Juliet Schor, **Harvard University**; Theda Skocpol, **Harvard University**; William Julius Wilson, **Harvard University**; Jack O'Connell, **Health & Welfare Council of Long Island**; Mimi Abramovitz, **Hunter School of Social Work**; Heidi Hartmann, **Institute for Women's Policy Research**; Clavin Fields, **Institute of Gerontology, UDC**; Timothy Smith, **Interfaith Center on Corporate Responsibility**; Thomas Buffenbarger, **International Association of Machinists**; Stephen Viederman, **Jessie Smith Noyes Foundation**; Bert Seidman, **Jewish Labor Committee**; Fred Azcarate, **Jobs with Justice**; Rev. Peter Laarman, **Judson Memorial Church**; Justin Dart, **Justice for All**; Peter D. Kinder, **Kinder, Lydenberg, Domini & Co.**; Brent Wilkes, **League of United Latin American Citizens**; John Mueller, **Lehrman Bell Mueller Cannon**; Rev. Robert L. Pierce, **Long Island Council of**

Churches; Rev. Russell Siler, Lutheran Office for Governmental Affairs, ELCA; Elisa Maria Sanchez, MANA, A National Latina Organization; Peter Diamond, MIT; Richard Medley, Medley Global Advisors, L.L.C.; Jackie Kendall, Midwest Academy; Heather Booth, Midwest Academy, Founder; Julian Bond, NAACP; Kweisi Mfume, NAACP; Kathy Thornton RSM, NETWORK: National Catholic Social Justice Lobby; Eleanor Litwak, NY State Council of Senior Citizens; Robert Ball, National Academy of Social Insurance; Jean Daniel, National Association of Area Agencies on Aging; Toby Weismiller, National Association of Social Workers; Samuel Simmons, National Caucus and Center on Black Aged; Susan Bianchi-Sand, National Committee on Pay Equity and Chair, National Council of Women's Organizations; Max Richtman, National Committee to Preserve Social Security and Medicare; Rev. Dr. Joan Brown Campbell, National Council of Churches of Christ, USA; Raul Yzaguirre, National Council of La Raza; Dr. Jane Smith, National Council of Negro Women; Steve Protulis, National Council of Senior Citizens; Michael Beattie, National Council of Students with Disabilities; Gertrude S. Goldberg, National Jobs for All Coalition; Curtis W. Ramsey-Lucas, National Ministries, American Baptist Churches USA; Loretta Putnam, National Multiple Sclerosis Society; Patricia Ireland, National Organization for Women; Bente E. Cooney, National Osteoporosis Foundation; Patricia M. Smith, National Parent Network on Disabilities; Donna Lenhoff, National Partnership for Women and Families; Dr. C. Delores Tucker, National Political Congress of Black Women; Burton D. Fretz, National Senior Citizens Law Center; Hugh Price, National Urban League; Nancy Duff Campbell, National Women's Law Center; Anthony Wright, New Jersey Citizen Action; Sen. Fred R. Harris, New Mexico Democratic Party; Stanley Sheinbaum, New Perspectives Quarterly; Barney Olmsted and Suzanne Smith, New Ways to Work; Edward Wolff, New York University; Marc Caplan, Northeast Action; Rev. Robert J. Wilde, Northside Common Ministries; Robert Wages, Oil Chemical and Atomic Workers; Deborah Briceland-Betts, Older Women's League; Charles Sheketoff, Oregon Center for Public Policy; Karen Ferguson, Pension Rights Center; Mike Lux, People for the American Way; Mark Weisbrot, Preamble Center; Herb Gunther, Public Media Center; Jesse L. Jackson, Rainbow/PUSH Coalition; Sheara Cohen, Rural Organizing Project; Philip Harvey, Rutgers School of Law; Dr. Joel Blau, School of Social Welfare, S.U.N.Y.; Andrew Stem, Service Employees International Union; Robert Myers, Social Security Administration; Martin Carnoy, Stanford University; Eric Kingson, Syracuse University; Paul Marchand, The Arc and Chair, Consortium for Citizens with Disabilities; Harriet Barlow, The Blue Mountain Center; Richard Leone, The Century Foundation; Vivien Labaton, Third Wave Foundation; Tom McCormack, Title II Community -AIDS National Network; Joseph White, Tulane University School of Health and Tropical Medicine; Jay Mazur, UNITE!; Stephen P. Yokich, United Auto Workers; Pat Conover, United Church of Christ; Douglas H. Dority, United Food and Commercial Workers; Jane Hull Harvey, United Methodist Church; Bishop Felton Edwin May, United Methodist Church; Anthony Samu, United States Student Association; George Becker, United Steelworkers of America; Chuck Collins, United for a Fair Economy; Robert Pollin, University of Mass-Amherst; Eugene Feingold, University of Michigan; Martha Byam, University of New Hampshire; Teresa Ghilarducci, University of Notre Dame; Arlene Stein, University of Oregon; James K. Galbraith, University of Texas; Ray Marshall, University of Texas; Nelson Lichtenstein, University of Virginia; Donald E. Wightman, Utility Workers Union of America; Susan Shaer, WAND - Women's Action for New Direction; Merton C. Bernstein, Washington Univ. in St. Louis; Doug Fraser, Wayne State University; Larry Marx, Wisconsin Citizen Action; Rep. Nan Grogan Orrock (GA), Women Legislators' Lobby; Anna Rhee, Women's Division, United Methodist Church; Peter Barnes, Working Assets; Deborah Kaplan, World Institute on Disability; Theodore R. Marmor, Yale School of Management

The New Century Alliance for Social Security is a coalition of citizen leaders who have all signed a Statement of Principles to guide Social Security reform. It is a project of the **Institute for America's Future**.



“Impact of Mandatory Coverage of State and Local Workers on Public Education in California”

Presentation by William S. Lambert
United Teachers Los Angeles

I am here to express the very grave concern of the California public school system and its teachers over a possible proposal to impose mandatory Social Security coverage on new State and local government workers as part of the current effort to restore the long-term solvency of the Social Security trust fund.

Such a proposal would have a devastating fiscal impact on the California school system and would seriously undermine the State’s pending effort to achieve the very class-size reduction that the President and the Vice President have been advocating as a national policy.

I represent the United Teachers of Los Angeles, the 40,000 teachers who work for the Los Angeles Unified School District (LAUSD), the largest school district in California. Statewide, California has over 400,000 active teachers working for 1,100 school districts.

Mandating our teachers into Social Security will have a harsh impact on both school districts and teachers. School districts will have to respond to the mandate in one of a number of ways, all of which negatively impact teachers and the cost of public education:

- 1) Pay an additional 6.2% of payroll for Social Security on top of employer costs required to fund the retirement benefits provided by the California State Teachers’ Retirement System (CalSTRS).

This scenario would cost LAUSD alone \$440 million in the first 10 years. On a statewide basis, this alternative is projected to cost school districts \$3.8 billion dollars in the first 10 years. If the school district has to absorb the cost of the employee’s 6.2% tax, this cost to the district could double.

- 2) Reduce CalSTRS benefits to a level that when combined with Social Security benefits would equate to the current level of benefits provided by CalSTRS.

If Social Security is substituted for a large portion of the current State pension benefit, contributions to the State plan will have to increase substantially in order to fund the same level of benefits as currently provided to California teachers. CalSTRS has calculated these costs at over 7% of payroll. Based upon California’s estimated current teacher payroll of \$16 billion, the increase in total cost would be \$1.1 billion per year, and increasing over time with growth in payroll. If the employer is required to absorb these costs, the impact to school districts would be doubled. If employees were required to share these increased costs, the impact of mandating Social Security would mean a reduction in salary of nearly 10 percent (6.2% SS tax plus 3.5% increased retirement costs).

- 3) Reduce CalSTRS benefits to that which can be funded within current contribution levels after funding mandatory Social Security contributions.

Employers cannot provide an adequate benefit with the funds remaining after paying mandatory Social Security contributions. Staying within current contribution cost levels leaves only a 1.8% of compensation sliver to fund CalSTRS retirement benefits. You are then requiring teachers to reduce their standard of living in retirement. How are employers suppose to attract qualified and talented teachers into a profession that can't provide adequate retirement benefits? Schools will not be able to achieve its goal of educating our children.

In any scenario, school districts and their teachers will be harmed permanently. For what? To extend the solvency of the Social Security trust fund for a mere two years. Two years. Certainly this does not justify the decimation of school districts in California. It will be our school children who will suffer. There will be decreased money for textbooks, library services, athletic programs, music programs. The list goes on.

California's budget outlook for the near future has just been released and the forecast is grim. With current projections showing a \$1 billion shortfall in the budget beginning July 1, 1999, Governor-elect Gray Davis has recently announced that the aggressive education reform he campaigned on must be scaled back. In addition, California school districts are already attempting to implement its broad-ranging new class-size reduction programs. Mandatory coverage is certain to impede if not halt school districts' ability to fully implement class size reduction and other education reforms.

In addition to the impact that will be felt by teachers as a result of the increased employer costs, there are the real hard dollar costs that will hit teachers. At a minimum, teachers will have a reduction in their take home pay of at least the 6.2% Social Security contribution and potentially as much as 10% with the increased State retirement plan cost. Teachers in Los Angeles can't afford to achieve the American dream of buying a house now on their current salaries. How can they ever hope to with a loss in take-home pay of these proportions? If school districts are required to increase salaries to offset the impact of the Social Security tax on employees (as I can assure you UTLA will make every effort to do); the harsh fiscal impact on school districts will be just that much greater.

Proponents of mandatory coverage argue that mandating uncovered public employees into the Social Security system is only a matter of fairness and equity. UTLA takes exception with that argument. Where were these arguments before Social Security reached crisis mode? Mandatory coverage would not be proposed at this time if not for the condition of the Social Security trust fund. So let's call this what it really is - a bailout of the Social Security trust fund on the backs of school teachers and other state and local workers who did not create the problem.

UTLA is opposed to mandatory Social Security on the basis that it is blatantly unfair to now mandate into Social Security employees originally prevented from participating and instead told to fend for themselves. Public employees did just that and now will be penalized for it. I ask you - where is the fairness and equity in that?

**Personal Statement of
Kamal Imhotep Latham
President and CEO, Harvard University NAACP**

President Franklin D. Roosevelt called Social Security “some measure of protection.. .against poverty-ridden old age.” In my opinion, it is one of the few massive government programs to have successfully achieved an honorable objective. Unfortunately, two major problems exist with the current system. It places an unfair financial burden on young people and it is on course to run a cash flow deficit early in the next century. The question of today is whether or not national policymakers will take the difficult step of reforming the system to resolve those problems while maintaining a safety net for the low-income elderly.

There are only two ways to save Social Security. The U.S. Congress and President William J. Clinton must either reduce benefits or increase revenue. The decision to reduce benefits is politically untenable and it would have dire consequences for low-income persons, especially if inflation rises. At first glance, increasing revenue sounds unpalatable because the assumption is that payroll taxes would have to be raised drastically. I believe there is another way. Individuals must be allowed to invest a portion of their retirement assets in the stock market. In short, the system must be partially privatized. It will not only promote intergenerational fairness and save the system from insolvency, but it will increase the national savings rate, allow individuals to earn more money, and put young people’s confidence back in the federal government.

Young people are very skeptical of Social Security because they know that it is not a retirement planning system but merely an income transfer from themselves to retirees. Furthermore, they do not believe that it will be there for them in their old age. These sentiments should not be ignored nor taken lightly. The future of this nation looks very bleak if young people, whom President John F. Kennedy considered America’s greatest natural resource, do not believe that the federal government is serious about having a system that will adequately provide for them in their retirement years.

Generation X shares a disproportionate amount of the financial commitment from society that is currently required to fully fund Social Security. Employees and employers each pay 6.2% in Social Security taxes up to an earnings threshold of \$68,400. The overwhelming majority of young people earn less than that and the FICA tax is automatically deducted from their paychecks. Although employers must contribute the same percentage, many economists believe that they pass on almost all of their tax to employees in the form of lower wages. In essence, young people are actually paying a FICA tax of nearly 12%. That is simply unfair.

If the current system is left unchanged, by the year 2013, the tax receipts coming into the Social Security Trust Fund will not meet the disbursements being paid out of it. Technically, the system can be financially engineered to cover all beneficiary payments through the year 2032. However, the 40 million Americans that belong to Generation X will be retiring

around that time and millions of them will fall through the crack because there will only be enough money to meet three-fourths of mandated benefit payments. It is wrong that what young people get in return for their FICA taxes is an empty promise of future financial security.

Lawmakers have a hard task ahead of them. They must have the political will to reform a system that places an unfair financial burden on young people and is on course to run a cash flow deficit in almost fifteen years. My desire to see the system changed does not stem from a conservative nor liberal ideology. Ensuring that all Americans have adequate retirement security in their old age, in my opinion, is just the right thing to do.

T H E
TWENTIETH CENTURY FUND
 FOUNDATION

STATEMENT OF RICHARD C. LEONE
 PRESIDENT OF THE CENTURY FOUNDATION

Societies everywhere are converging in a belief that high rates of economic growth and long-term prosperity are possible only with free markets, but they also continue to learn and relearn lessons about the risks that accompany free enterprise. These risks underscore the abiding importance of building strong, democratic governmental institutions to enforce the rules of the game and to deal with the abuses of the marketplace. Moreover, even in strong economies, individuals confront unavoidable uncertainty about the long-term outcome of a lifetime of work, savings, and investment. Experience everywhere confirms the indispensability of a reliable social safety net, especially for our youngest and oldest. Reform of Social Security should reflect this hard won knowledge about the workings of capitalism and democracy.

The choices that we make about the future of social insurance will go a long way toward answering basic questions about America: What is the proper role of government in an overwhelmingly private-sector economy? How can we create fairness and opportunity for all our citizens? How can we reduce inequality and poverty? Thus, we can and should assess each proposal for change in Social Security in terms of its potential effect on economic growth, inequality, fairness, and efficiency. Until recently, Social Security has operated with relatively little controversy, routinely and efficiently accomplishing the task for which it was created--reducing poverty among the elderly. Today, without it, more than half of Americans over age 65 would fall below the poverty line. With the retirement of America's largest generation--the baby boomers--in sight, however, both Social Security and health programs for the elderly have moved to center stage in political and policy debates.

At one extreme, some argue that America will be doomed to a sharply diminished future unless extreme steps are taken to change the way we support the aged. They claim that the system is near collapse and that "privatizing" it will give everybody better protection in old age. But the evidence suggests, instead, that moderate adjustments in burdens and benefits can solve foreseeable problems within the framework of the existing system.

Too often, Social Security reform is discussed as though the program were merely another savings or investment program whose purpose was to yield the biggest return. Social Security is more; it is a disability and life insurance policy that provides vital protections to virtually every member of our society. Currently, seven million survivors of deceased workers and four million disabled Americans receive income support. The Social Security Administration calculates the value of the disability insurance as the equivalent of a \$203,000 policy in the private sector; for a 27-year-old average-wage worker with two children, Social Security provides the equivalent of a \$295,000 life insurance policy. The total value of these two policies nationally is about \$12.1 trillion, more than all the private life insurance currently in force.

tel. 212.535.4441

41 E. 70th Street, New York, NY 10021 fax 212.879.9190

web: <http://epn.org/tcf.html>

email: xxthfund@ix.netcom.com

Social Security also provides a lifetime retirement annuity whose benefits rise with inflation. Many corporate pensions run out after 20 years, and most are not adjusted for inflation. The notion that these basic protections would be unnecessary if we all saved more money is simply false. The truth is that neither of these protections are available in the private market at a price that the vast majority of Americans can afford.

Social Security works because virtually all of us belong to it and pay into it. Social Security, after all, does not consist of a bunch of piggy banks with our names on them. Our pooled contributions insure that almost every senior citizen receives a minimum income. Although some of us need the protection more than others, all of us get some benefits. It is the nature of such pooled plans that both the most fortunate among us (the wealthy) and the least fortunate (those who die young and without a family) get the least from the program.

It is a fallacy that everyone can do better than average if we take control away from the Government. Averages exist because some of us do worse and some of us do better. Moreover, to the extent that higher market returns are sought--for example, by investing Social Security surpluses in higher yielding investments--they can be achieved less expensively and with less risk within the **framework** of the existing system. Privatization advocates wish away the reality that individual accounts can mean high costs and risks. They also often ignore enormous transition costs--one plan requires increased taxes of \$6.5 trillion during the next 72 years.

In the end, of course, there is no magic formula that will sweep away all the issues raised by the aging of the boomers. For all but a few fortunate individuals, as well as for the nation as a whole, many questions (like life's risks in general) cannot be wished or legislated away. Given the long-term nature of the implicit contract involved in a retirement program (perhaps sixty years from the start of work to the end of life), such risks are inevitable. Over such a span, birthrates and medical progress are unpredictable, securities markets are sure to experience immense volatility, and even the most stable democracies are likely to experience sweeping transformations in politics and policy. In other words, the future development of society will remain complex and uncertain. Ultimately, the inevitability of risk, when combined with the uncertainties intrinsic to the careers and health of individual workers, makes the strongest case for a safe and conservative social insurance program.

LAPERS

Yvonne E. Richardson
Executive Director
Sheriff's Pension and Relief Fund
President

Graig A. Lurcombe
Assistant Director
Teachers' Retirement System of Louisiana
Vice President

Virginia Freshwater
Administrative Assistant
Municipal Employees' Retirement System
Secretary

Dainna S. Tully
Benefits Administrator
Parochial Employees' Retirement System
Treasurer

Mandatory Coverage of Public Employees is a Bad Idea and Offers No Real Solution to Fix the Social Security Problem

Social Security was formed during the Roosevelt Administration as a social "safety-net" to offer supplemental income for retirees and to provide a means of support for those members of society who were incapable of earning that means of support themselves. At the time, the Federal government told public employees that there were 10th Amendment Constitutional concerns and that they were not going to even be offered the opportunity to share in the government's generosity. If a retirement and safety-net was desired by public employees, then the only alternative they had was to form their own retirement system.

So that's what they did. And those defined benefit systems progressed with the times, while Social Security remained stagnant. Now, almost 70 years later, the gulf between the two is so great that there is no longer any comparison. Now proponents of this provision are willing to overlook the ethical and Constitutional concerns in what is becoming apparent as a grab for this last source of untapped income for Social Security. The sad truth is, however, that the SSA has already reported bringing all of the public employees not now currently paying Social Security into the system will only extend solvency two years. Upon further examination, the 10th Amendment concerns are still intact. Furthermore, there is a question of ethics when public officials try to force over 5 million citizens nationwide and 250,000 citizens from the State of Louisiana from retirement systems that provide far better benefits into a system that is universally recognized as broken and headed toward collapse.

One of the misconceptions about mandatory Social Security coverage is that the benefits are comparable or similar. But the chart at the bottom of this statement shows how the retirement systems in the State of Louisiana now offer almost twice as much in benefits for retirees as Social Security can. It is possible to obtain 100% of your salary in retirement benefits if you spend an entire career in public service. But the maximum anyone can draw from Social Security is approximately \$17,500 per year. This fact means that people who would have enjoyed comfortable retirements would be **shifted** to a category of earnings slightly higher than the poverty level. Additionally, these people could become potential burdens for the other Federal and state social safety-nets since their Social Security benefits would place them in such a low income bracket. If new hires were allowed to enter their respective retirement systems, then the dangers of that are far less since their retirement income would be significantly higher.

This brings us to one of the biggest misconceptions in this debate. It is assumed by proponents that the imposition of mandatory coverage upon new hires at some point in the future will only affect those new hires. The reality is that forcing Social Security upon new hires would effectively close

existing retirement systems and thereby eliminate the ability to offer additional benefits for retirees, like cost-of-living allowances and health care. So these changes would have severe long term impacts by destabilizing the retirement and disability security of current and future retirees in these systems.

Mandatory Social Security coverage has significant impacts on the ability of the employers - public agencies - to perform the services they are charged with providing. The additional expenses placed upon these employers would mean that they would have to restructure budgets and pick and choose between services. Education, public safety, government services and the taxpayers would all suffer if this unfunded Federal mandate were to be imposed upon the States and their political subdivisions. For example, in Louisiana alone, the additional cost to the taxpayers in the first five years is estimated to exceed \$750 million dollars.

There is an additional burden on the State of Louisiana, where mandatory Social Security coverage could not be simply substituted for existing retirement benefits. The State Constitution and laws dictate that employees in public service MUST belong to their respective retirement system. Until the laws are repealed and the Constitution modified, employees and employers are faced with, on average, a payroll tax of 12-16% each! Such a burden becomes impossible for many on the already low salaries found in many public service sectors.

Mandatory Social Security coverage is a bad idea because it would cause significant financial harm to present and future retirees, new hires, the employers and public agencies and the taxpayers who would be faced with this additional burden if implemented. Forcing people who would belong to viable and healthy retirement systems offering far superior benefits into Social Security is simply bad public policy. Instead, policy makers should be examining these retirement systems and use their success as a model for reforming the broken Social Security system.

Retirement System	Retirement Benefit	Retirement Age	Cost of Mandatory Coverage Employer/Employee 1st Five Years
Social Security	\$ 805.00	Age 65 (rising to 70)	
School Employees	\$ 1,393.33	Any Age w/30 years	\$ 3,993,782.00
State Employees	\$ 1,275.00	Any Age w/30 years	\$ 155,000,000.00
State Police	\$ 1,500.00	Any Age w/20 years	\$ 2,469,930.00
Teachers'	\$ 1,250.00	Any Age w/30 years	\$ 573,000,000.00
Firefighters	\$ 1,665.00	Any Age w/25 years	\$ 569,160.00
Sheriffs'	\$ 1,625.00	Age 50 w/20 years Age 55 w/12 years	\$ 50,000,000.00
Municipal Police	\$ 1,665.00	Any Age w/25 years	\$ 8,788,500.00
Parochial Employees	\$ 1,500.00	Any Age w/30 years	\$ 158,196,285.00

2000 L Street, N.W., Suite 700
Washington, DC 20036
Phone: (202) 296-5860
Fax: (202) 223-0776

Bruce K. MacLaury
President Emeritus, The Brookings Institution
Chairman, CED Subcommittee on Social Security Reform

Van Doorn Ooms
Senior Vice President and Director of Research, CED

The Committee for Economic Development (CED) is an independent, nonpartisan organization of over 200 business and education leaders, principally CEOs of business firms or universities. For over half a century, CED's trustees have produced policy statements from the perspective of the national interest on major economic and social issues. In 1997, after a year of study by a committee of its trustees, CED released *Fixing Social Security*.

The Problem CED found that Social Security faces *two* fundamental problems -- *fiscal* insolvency and *political* insolvency. Fiscally, promised benefits cannot be delivered in the long-term under the present funding structure. Politically, current contributors, especially younger workers, are increasingly dissatisfied with the low and declining returns from their payroll tax contributions. As a result, they view social security as a "bad deal," and their political support for the system is waning. We believe that any viable reform effort must address *both* these problems.

CED's Principles for Reform CED trustees first defined a set of principles and objectives for reform. We recognized that there are no easy fixes, that trade-offs between objectives are inevitable, and that some sacrifice is required. However, we concluded that, to the greatest extent possible, reform should:

- Provide a guaranteed minimum retirement income, or safety net, for all workers and their families, retaining an element of income redistribution to support this safety-net;
- Reduce inequities between generations, principally by raising returns for younger workers, and also improve equity among beneficiaries, particularly between workers with non-earning spouses and other retirees;
- Increase national saving and investment, which will be required to provide adequately for both the rising number of elderly and the relatively small number of workers who will help support them;
- Require universal participation, so that the burden of the redistribution and insurance elements of social security be shared as broadly as possible;
- Be enacted promptly but phased in gradually to provide ample time for planning for and adjusting to changes in retirement arrangements;
- Hold down administrative costs, including any arising from investments in private assets.

CED's Recommendations To address the dual problems of fiscal and political insolvency, CED recommends a two-tier solution:

1. **Restore solvency to our current basic benefit system** The current payroll tax would be preserved. While retaining a basic retirement safety net for low-income workers, future payments to middle and upper income beneficiaries would be modestly reduced by slowing the growth of initial benefits, raising the normal retirement age to 70, increasing years of covered employment required for full benefits from 35 to 40, and taxing benefits in excess of contributions, as is done now for private pensions.

These changes would have little or no effect on current beneficiaries or older Americans near retirement. However, they would be substantially more than required to restore 75 year actuarial balance to the trust fund. We believe that such a "safety margin" is appropriate in light of the history of optimistic projections of the trust fund balances and in order to maintain such actuarial balance over an extended period. If the safety margin proves unnecessary, the benefit changes can be modified or payroll taxes reduced.

2. **Raise the rate of return on contributions by establishing a "second tier" of privately owned personal retirement accounts (PRAs)** These accounts would be funded by mandatory contributions of 3 percent of payroll, half from employees and half from employers. The contributions would be made from pre-tax income (as in 401 (k) plans) and annuitized upon retirement. PRAs would be **privately** owned and managed, but investment options would be limited to hold down administrative costs.

We consider the private ownership and management of these accounts -- putting them beyond the reach of government -- to be a critical feature of the program. Public ownership and/or control of these funds entails the risk that the government will contrive to spend them, as continues to be the case at present, our new unified budget surplus notwithstanding. In addition, public investments in private securities would place the independence of the private sector in serious jeopardy. These investments would be extremely large, giving the federal government an effective controlling interest in many private companies. We doubt that government could permanently resist the temptation to pursue political and social objectives through its investment policies.

Comparison With Other Proposals In designing this program, CED's trustees rejected other proposals that fell short with respect to some of the basic principles and objectives listed above:

- **CED rejected tax increases** which would reduce rates of return, increase intergenerational inequity, and weaken political support for social security. Payroll tax increases would also tend to reduce employment and economic growth.
- **CED also rejected privatization of the basic system**, which would abandon the principle of social insurance and impair our retirement safety net. Privatization would also create enormous transition costs that would entail unacceptable increases in deficit financing or commensurate tax increases. Partial privatization plans that would "carve out" a significant portion of the current payroll tax to fund private accounts suffer in some degree from these same shortcomings.

Statement of Donald Marquis
Commissioner Massachusetts Public Employee Retirement Administration
Commission

My comments are given from my position as Manager of a community of 50,000 population, as a Commissioner of the Massachusetts Public Employee Retirement Administration Commission (PERAC), and as Chairman of the Social Security Committee for PERAC.

Obviously, there is no doubt that our Social Security System needs changes in order to remain solvent and to continue to pay benefits to the participants of the system. Furthermore, these changes should be implemented sooner rather than later.

As you know, the Social Security System is a pay-as-you-go system rather than a funded one. I do not believe that the long-term solution is simply to keep increasing the Social Security tax on payroll and/or increasing the retirement age. We need to invest part of the Social Security funds in equities managed and invested by a Board of Trustees independent of the administration and Congress. It has been demonstrated that even a modest return of 8% over the long-term will basically keep the Social Security System solvent in the future.

There has been discussion of including the seven states, which are currently not part of the Social Security System into the system. We are opposed to this idea.

We in Massachusetts have an excellent public pension system, which we do not want to lose. Our system was created several years prior to the Social Security System in 1935. We were subsequently given a choice of whether to join the Social Security System or retain our own system, and we chose the latter. The Massachusetts public retirement system is established under the General Laws and is governed by a seven-member commission, the Public Employee Retirement Administration Commission. PERAC oversees 106 individual retirement boards throughout the state. Fifteen years ago, the State made the decision to require the pensions systems to move away from a pay-as-you-go funding to a fully funded system. Currently most of the 106 systems under PERAC are at least fifty percent funded and several are one hundred percent funded.

There are several reasons why we do not want to be part of the Social Security System:

- 1) Our system is solvent and will soon be fully funded.
- 2) Our benefits are much better than those under Social Security.
- 3) We made all the right and tough decisions here in Massachusetts, and we do not want to be in a system that is going bankrupt, according to many, in the next thirty-four years.
- 4) If forced to join the Social Security System, it will cost the public employers and employees in Massachusetts approximately five hundred million dollars per year. If we have to appropriate that extra money for Social Security coverage, obviously we will have to cut other programs under our jurisdiction.
- 5) We do not want to be looked at as a "cash cow" in order to help pay the current Social Security

benefits to retirees. 6) Besides, the extra revenues would extend the Social Security System solvency for only two extra years. Finally, keep in mind that you may increase your revenues initially by having us in the Social Security System, but when the “new” Social Security participants retire, it will cost the Social Security System a lot more in the end.

Let us look for real long-term solutions to this Social Security System instead of the piecemeal approach.

Thank you for the opportunity to express my views.

Donald R. Marquis
Town Manager, Arlington, MA/
Commissioner,
Massachusetts PERAC

The 60 Plus Association

1655 N. Fort Myer Drive * Suite 355 * Arlington, VA 22209

Phone (703) 807-2070 * Fax (703) 807-2073

*Tax Fairness for Seniors * Repeal Unfair Inheritance Taxes!
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President

SAVING SOCIAL SECURITY FOR FUTURE GENERATIONS

IT'S SAFE FOR TODAY'S SENIORS

**STATEMENT OF JAMES L. MARTIN, PRESIDENT OF THE 60 PLUS ASSOCIATION,
FOR THE WHITE HOUSE CONFERENCE ON SOCIAL SECURITY, DECEMBER 8-9, 1998**

The 60 Plus Association, a nonpartisan senior citizens advocacy group, commends the President's year-long efforts to highlight Social Security reform, and today's White House Conference on Social Security is part of his plan. 60 Plus is pleased to join these efforts to save Social Security, and we look forward to the President's particular plan to strengthen and save the system for future generations.

We seniors know the system is safe for us. But the 75 million baby boomers and the millions of 20 and 30 year olds, the Generation Xers, wait literally with bated breaths for the President's plan to save and strengthen Social Security. The importance of the President's plan cannot be over-emphasized, because while responsible Republicans and Democrats offer positive proposals to save Social Security, clearly the President's leadership will be needed before we can arrive at a final solution.

As the Commissioner of Social Security, Kenneth Apfel, said in a major address before the National Press Club last week, we must stop throwing "political hand grenades" on Social Security and work together with common purpose and determination. We agree.

We have a window of opportunity early in the 106th Congress to put Social Security on a strong footing for future generations. The system is like a time bomb, ready to explode. Surely, we must put partisan politics aside. We must act in a nonpartisan manner.

Why did a seniors organization such as the 60 Plus Association get involved in this matter? It would be easy for us to take an ostrich-like approach and hide our heads in the sand, ignoring the issue. Yet, we are not just "greedy old geezers" with a "gimme, gimme, gimme" mentality, as we're wrongly portrayed. We are genuinely concerned with the future of the program and the well-being of all our citizens, not only our current seniors but those who will become seniors one day in the future.

The group I represent is called 60 Plus and I'm 60 plus in age and I still rely on my favorite senior for advice and she's 80 plus--my mom, my sainted mom if you will, Mary L. Martin, who still works part-time. She notes that seniors most valuable assets are not just their social security, their retirement income or pensions, though these are high on their list, but it's their children, their grandchildren, and their great grandchildren. She adds that while Social Security is safe for seniors, it needs to be protected so it is there for her other assets, her children and grandchildren, future retirees.

We believe that the best approach for saving the system is adopting the commonsense approach of privatizing or, as I prefer to call it, "personalizing" Social Security, a description borrowed from Sen. Bob Kerrey (D-NE), a leading expert on Social Security reform. This approach, despite the cry of the status quo seekers, is not going to ruin Social Security but will, I truly believe, save it.

We advocate taking part of the payroll tax, paid by employer and employee (except for the self-employed who bear the entire burden) and investing these funds in personal retirement accounts (PRAs). These accounts will be economically productive and enable workers to receive much more than the meager 1 or 2 percent return they can now expect to receive from Social Security. The returns are likely to be 2 or 3 times larger, at a minimum.

We have the example of the nation of Chile which had a Social Security system facing insolvency. A reform was adopted by Dr. Jose Pinera in 1981 and we have had 15 years to witness the success of that program--safe and secure retirement for workers, better returns on money invested for retirement, and a system contributing to the nation's economic growth because of the money invested in the stock market. There are regulations so that a safety net is provided and only prudent investments are allowed by the government-regulated firms.

Chile is not alone. More than half a dozen nations have followed suit in Latin America. Others, such as Australia, the United Kingdom, and, even Communist China, have devised a method for personal retirement accounts. The United States needs to board this train before it leaves the station.

Seniors will back reform. We polled our seniors and found that by a 3 to 1 margin they favored a form of personalization. We then commissioned a national polling firm to conduct a survey beyond our membership and its findings confirmed that seniors back "personalization".

It has been too easy for politicians to demagogue this issue. We need a nonpartisan cooperative effort for real meaningful and lasting reform--and the President must lead that effort.

The 60 Plus Association urges: While it's safe for today's seniors, we must save Social Security for future generations. Debate It, Don't Demagogue It! Let us move toward personal retirement accounts (PRAs) so individuals, like those workers in Chile, will have their own passport of savings toward retirement and will enjoy the fruits of a growing economy reform.

In conclusion, Commissioner Apfel, in his address before the National Press Club, reminded us to work together with common purpose and determination, that just as lightning makes no sound until it strikes, we should recognize that there are rumblings on the horizon and we must act now to make the changes to keep Social Security strong into the 21st century.

Commissioner Apfel also quoted Senator Daniel Patrick Moynihan (D-NY) as reminding us that if we leave Social Security unchanged, that in 30 years time Social Security as we have known it since 1935 will have vanished. We need to reflect back on the origins of Social Security, when President Franklin D. Roosevelt signed into law the Social Security Act on August 14, 1935. The 60 Plus Association is the first seniors organization to urge personal retirement accounts (PRAs) in keeping with the original intent of Social Security to help seniors out of poverty.

On May 2, 1997, the FDR Memorial was dedicated in Washington, D.C. What more lasting commemoration to FDR can we embrace than the adoption of personal retirement accounts (PRAs) which will save Social Security for a new age, a new era, and a new generation.

WHITE HOUSE CONFERENCE ON SOCIAL SECURITY
STATEMENT

More than three years ago at the 1995 White House Conference on Aging, the resolution receiving the most votes from the delegates was entitled "Keeping Social Security sound, now and for the future." This resolution, one of 50 adopted by the 2,259 bi-partisan delegates previewed many of the issues that are now front and center in the debate on Social Security and its **future**. It called for the reaffirmation of Social Security as a social insurance program, it called for an ongoing national education program to provide the public especially the younger generations with accurate information on Social Security and its future. Above all, the resolution called for exactly what the President has embarked on, a campaign to put all options for Social Security's **future** on the table for a thorough discussion and not in a panic environment.

President Clinton, in calling the 1995 White House Conference on Aging, stressed that aging needed to be viewed in the context of a process that affects all generations and that aging policy decisions must be intergenerational. Decisions made about the **future** of Social Security have to take into account their impact on **future** generations. Now, three years later, a White House Conference on Social Security is convened to do just that.

Within the past year, a new organization was established called the Boomer Agenda. It is the first bi-partisan political action and issue advocacy group created by boomers for boomers and their families. The Boomer Agenda is currently conducting a national survey of boomers to determine what their top concerns are. The **future** of Social Security has consistently ranked as the top concern **from** the preliminary results received to date. It is important that this White House conference and all subsequent activities undertaken by the Administration and the Congress take into account the concerns and views of boomers. The reality is that all boomers will reach age 65 by the time that Social Security faces the most severe crisis - its inability to pay **full** benefits. As various approaches are presented, their impact on boomers must be evaluated or we will not achieve the critical generational equity so important for real Social Security reform.

In addition to the need for generational fairness, Social Security reform must also be far more gender sensitive. Women, especially older women, have encountered years of discrimination at the hands of Social Security. That must end. Further, any Social Security reform for today or tomorrow must have a strong safety net of guaranteed benefits for the very poor, for a foundation before anything else. The reality of today and tomorrow is for millions of Americans, Social Security is their only source of income. They will not be indulging in the speculative world of privatization but they must be protected **from** its risks.

As the President has stated, each year real Social Security reform is delayed, the more expensive it gets for the individual and the nation. We need to approach this challenge neither from a state of panic nor a state of complacency. The final Congress of the 20th Century working with the last President of the 20th Century should commit to the preservation and strengthening of Social Security, the greatest social program of the 20th century so it can continue.

Submitted by:

Robert B. Blancato

Executive Director, **1995** White House Conference on Aging

Founder, Boomer Agenda

December 3, 1998

White House Conference on Social Security
Views of the National Council on Teacher Retirement (NCTR)
Submitted by Donald S. Miller, NCTR President,
and Executive Director, Teachers' Retirement System, City of New York

Any debate on the future of Social Security requires the counsel of those most closely involved in retirement policy -- the administrators and trustees of this Nation's public retirement systems. Accordingly, as the Executive Director of the Teachers' Retirement System, City of New York, and President of the National Council on Teacher Retirement, I am pleased that I have the opportunity to take part in the Conference. These remarks will summarize NCTR's views on Social Security reform.

NCTR had its beginnings in 1924; it affiliated with the National Education Association in 1937; and became an independent association in 1971. As such, it is one of the oldest continuously operating organizations devoted to retirement issues. The organization is composed of 73 retirement systems that serve over 13 million public school teachers and other state and local government employees. The systems provide retirement, disability, and other benefits. These benefits are funded through contributions by the state or local government, the employees themselves, and investment earnings.

The retirement systems that belong to NCTR are governed by boards of trustees that are made up of employees, retirees, employers, and members of the public. These board members are fiduciaries who are charged with overseeing the administration of the retirement system for the exclusive benefit of plan participants. They also prudently invest the assets in the systems' funds, which are held in trust and therefore separate from the general funds of the sponsoring state or local government. Collectively, NCTR members hold \$1.1 trillion in assets. NCTR members are a testament that governmental pension funds can be successfully managed and prudently invested without interference by the sponsoring governmental entity.

NCTR recognizes that Social Security has successfully provided basic retirement and other benefits to Americans since the 1930's. It has raised many older Americans out of poverty and allowed them to spend their retirement years in dignity and, in fact, is the primary source of retirement income for many senior citizens in this country.

Because of the impending retirement of the 77 million baby boomers, Social Security's financing is on a precarious basis. Accordingly, NCTR calls upon the President and Congress to take action that will ensure the long-term solvency of the Social Security Trust Fund by maintaining the economic security of current and future Social Security beneficiaries. Moreover, such action must not impair in any way the guarantee of an inflation-adjusted retirement income.

In meeting these goals, policy makers must not make changes that would weaken existing retirement programs. I am specifically referring to proposals that mandate Social Security coverage of newly hired employees of states and localities whose employees do not now

participate in the Social Security System.

Under the mandatory coverage proposals, the affected employer and employee would each pay the 6.2% into the Social Security Old Age, Survivor, and Disability Insurance fund. This amount would be in addition to the contributions already made by both the employer and the employee into the applicable governmental retirement system. Proponents of mandatory coverage argue that it provides 10% of the revenue needed to bring system into financial balance. What they fail to recognize is the tremendous cost and dislocation that affected state and local government employees and their employers would face.

By way of background, the Social Security act signed into law by President Franklin Delano Roosevelt on August 5, 1935 did not include state and local government employees. Concern existed whether the federal government had the constitutional power to require states and localities to pay the Social Security tax. By the 1950's, many states and localities were interested in voluntarily affiliating with the Social Security System. Accordingly, Congress approved so-called "Section 2 18 Agreements," under which states and localities may participate in the system. Many jurisdictions availed themselves of this opportunity, including most of the retirement systems in both the State and City of New York.

Approximately four million state and local government employees are not currently covered by Social Security. Most affected would be police and fire fighters of whom 75% are not covered and public school teachers of whom 40% do not participate. When fully phased in, mandatory coverage would cost states and localities \$8 billion a year and affected employees, an equal amount, totaling \$16 billion.

It is unrealistic to assume that affected employers and employees can readily pay the additional 12.4% into Social Security. A second tier of benefits would have to be added to existing retirement systems for the new employees. The new tier would provide lower benefits than those for employees in the existing benefit structure. With part of the money previously available to fund the retirement system now paid into Social Security, the reduced level of funding may not be sufficient to provide both 1) adequate benefits in combination with Social Security benefits and 2) adequate financing of the retirement system's unfunded actuarial accrued liability. In addition, a lower contribution rate for new employees into the state or local government retirement system would also decrease the rate of growth in the trust fund and cause a decline in the amount of investment return.

In summary, as the debate on Social Security reform progresses, NCTR urges the President and Congress to make changes that maintain the economic security of current and future Social Security beneficiaries, while not undermining existing retirement programs of states and localities. Again, thank you for the opportunity to participate in the Conference.

For more information, contact Mr. Miller at 212-386-5203 or Cynthia L. Moore, Washington Counsel, National Council on Teacher Retirement 703-243-3494.

Returns and Administration Costs under Alternative Social Security Reforms

Olivia S. Mitchell'

It is important to be clear about three dimensions of choice in the discussion over US social security reform. The **first** dimension pertains to finding: **prefunding** social security requires increasing taxes or cutting benefits to shrink the system's current \$9 trillion in unfunded promises (amounting to a social security debt of \$60,000 per US worker). The **second** dimension involves investment *portfolios*: **diversifying** social security involves investing all or part of the retirement system's assets – totaling 1.5 years of benefit payments – in a broad range of investments including corporate stocks and bonds. (Currently, all social security funds are invested in Treasury bills.) And the **third** dimension pertains to *system* type. One could remain with the current national defined-benefit system, or one could convert to individual defined-contribution accounts. All reform plans pick points along these three dimensions: for instance, the recent Social Security Advisory Council put forth two plans (the Personal Security Account and the Individual Account) requiring funded defined-contribution individual accounts with diversified assets, while the Maintain Benefits plan kept the current federally-held defined-benefit system but raised **prefunding** along with Trust Fund investment in equities.

The issues now polarizing the US Social Security reform debate can be seen in the light of these choices that must be made, regarding rates of return and administration costs under a reformed system. As we show, these issues are more complex than has been recognized to date.

Investment Returns in a Diversified System²

Some who favor diversification of social security assets offer as supporting evidence the high stock market returns of the last 20 years, and they conclude that Baby Boomers and their children could do better by investing in stocks than by remaining under the current system. But the argument that workers could earn a higher “rate of return” from investing their payroll taxes in the stock market is false for two reasons. First, returns on stocks vary more than bond returns, making investors demand a risk premium to hold these more uncertain assets. Proper risk adjustment of stock returns would render these more similar to returns on less risky assets. Second, today's workers have inherited \$9 trillion in unfunded social security promises, as noted above. If this debt is to be honored, some 3% of current workers' pay would have to be allocated to cover retirees' benefits – leaving only three-quarters of the social security payroll tax to be invested in the stock market. (In fact, the potential amount is even less than that since social security disability insurance benefits exceed earmarked payroll taxes as well). Evidently, the “transition cost” of old unfunded promises undermines one of the apparent advantages of

'Mitchell is the International Foundation of Employee Benefit Plans Professor of Insurance & Risk Management and Executive Director of the Pension Research Council at the Wharton School, University of Pennsylvania. [email: mitchelo@wharton.upenn.edu] Opinions are solely those of the author.

²See <http://prc.wharton.upenn.edu/prc/prc.html> or Geanakoplos, J., O.S. Mitchell, & S. Zeldes. “Social Security Money's Worth,” *In Prospects for Social Security Reform*, Eds. O. Mitchell, R. Myers, H. Young. Univ. of Pennsylvania Press, 1999; and Geanakoplos, J., O.S. Mitchell, & S. Zeldes. “Would a Privatized Social Security System Really Pay a Higher Rate of Return?” *In Framing the Social Security Debate*. Eds. D. Arnold, M. Graetz, & A. Munnell. Brookings Institution, 1998.

allowing system diversification, whether it is through individual or government-managed accounts.

Despite this caveat, important benefits would flow from **prefunding** individual social security accounts that can be invested in a diversified set of assets. Specifically, about half of the US population holds no stock in its retirement portfolio. Many of these people would be better off from increased retirement saving in diversified assets, and individual accounts would help achieve this. Some gains might result if the federal government held the assets in the Trust Fund, but many have deep concerns about the government “picking stocks” and worry that the Trust Fund monies would be spent rather than saved.

Administrative Expenses of an Individual Account System³

Even among those who favor funded, diversified, social security accounts, people disagree about how these accounts should be managed. If the federal government invested the money centrally via a pooled Trust Fund, the additional administrative costs of money management would be modest – probably under 10 basis points per year (a basis point is one hundredth of a percent). These would be incurred on top of current social security administrative costs of about \$14 per participant per year. If individual accounts are mandated instead, additional administrative costs might come to 10-50 basis points per year – on the lower end for accounts receiving contributions worth 5% of payroll, and on the higher end for accounts receiving only 2% of payroll per year. Some analysts restate these annual charges over the participant’s worklife as equivalent to a fraction of the account’s ultimate asset value, and they arrive at numbers ranging from 1% to 20% of the final account depending on the holding period, the rate of return, and the size of the account.

It is evident, therefore, that participants in an individual account plan must devote substantial attention to how administrative charges can affect retirement saving. In exchange for these fees, individual account participants would have the opportunity to choose their fund managers and investment portfolios, and people would reap the reward from saving and managing their own accounts. These options are unavailable under a national defined-benefit approach. The US can learn from other nations that have preceded us in moving to individual retirement saving accounts, including several sister nations in the Americas. The US economy would probably do better on administrative costs because of our larger size, our more sophisticated taxation system, our technologically advanced business and labor environment, and our more efficient and transparent capital market. In any event, additional regulatory structures would be required.

Drawing these distinctions is important since they lead to several conclusions about social security reform proposals offered in the US context:

- Any reform plan boosting **prefunding** requires additional taxes and/or lower benefits.
- Any reform permitting asset diversification into stocks will involve additional risk.
- Any **prefunded** system will require regulation to effectively resist political interference.
- An individual account system will cost more to administer but will offer additional services.

³ See Mitchell, Olivia S. “Administrative Costs of Public and Private Pension Plans”. *In Privatizing Social Security*, Ed. Martin Feldstein. University of Chicago Press, 1998.



STEPHEN MOORE
Director of Fiscal Policy Studies

SAVING SOCIAL SECURITY FIRST:
THE PERSONAL SECURITY ACCOUNT OPTION

Stephen Moore

President Clinton is to be commended for convening the bipartisan summit on saving Social Security. One issue that all sides should be able to agree is that we have to act now to solve the \$5 to \$10 trillion funding shortfall in the Social Security system. If we wait 5 or 10 years the financing crisis will be right upon us, and our range of options to save the system will be far more limited. We can see the Titanic headed for the iceberg, we need to start turning the ship around immediately.

In April of 1998 during the first town hall meeting on Social Security convened by the White House, President Clinton declared:

The Social Security system must remain universal, fair, and must deal with the problems of the disabled and the poor. If you do all that, could you construct some system which also made allowance for private accounts? I think you could, yes.

I think he is right. For the past 20 years the Cato Institute has endorsed transforming Social Security from a pay-as-you-go system, to a fully financed, individually invested program. In other words, American workers should be permitted to fully and immediately invest their Social Security payroll taxes (12 percent of their paycheck) into Personal Security Accounts (PSAs). There are 3 critical safety features to the PSA plan that I believe would satisfy the President's concerns:

- 1) Every American currently receiving (or about to receive) Social Security benefits will be guaranteed that his or her payments will not be cut. Seniors should be held harmless to the change.
- 2) All American workers will be given the option of staying in the traditional Social Security system or investing their money in a PSA that is controlled and owned by the individual worker.
- 3) Every worker, whether they stay in Social Security or choose a PSA, will be guaranteed a minimum retirement benefit when they retire. In other words, there will be a safety net feature to the program.

Why should American workers and politicians favor converting Social Security to a system of PSAs? Because it offers workers a better deal. Even if workers were required to invest in non-risky investments, the rate of return on their money and their subsequent retirement income would be substantially higher than if it remained in the Social Security system. This statement is true whether the worker is black or white, man or woman, rich or poor, married or single. A median income worker born in 1970 will receive a Social Security benefit of \$1,429 (assuming benefits are not cut), but with a 10 percent PSA invested in 40% bonds and 60% stocks the worker would receive a monthly benefit of \$2,654. If the entire 12 percent payroll tax were put in a PSA the benefit would exceed \$3,000 per month.

The general rule of thumb is that a typical worker would have a benefit twice as high under PSAs than Social Security. This analysis reasonably assumes that over the next forty years the return in financial markets will be comparable to the average rate of return from 1926-96. Americans who wish to assess how they personally would fare under a PSA system should try the Cato Institute's Social Security calculator on our web page: www.socialsecurity.org.

It is important to emphasize that virtually all of the Social Security "reforms" proposed by opponents of PSAs would simply lower the already poor rate of return for young Americans. In other words, any "reform" option that raises the payroll tax rate or the payroll tax income threshold, that lowers future benefits, or that raises the retirement age, only worsens the rate of return for today's worker and future generations. These options should therefore be rejected. We talk a lot about "fairness" in Washington. If fairness is to be one of our guiding principles in the search for a Social Security solution, we should not force our children to pay more in or get less out of a system that is already severely inequitable to them.

How can we finance the transition from pay-as-you-go financing to a fully funded PSA system? First, we should dedicate every penny of the current Social Security surplus to helping finance PSA's while still paying benefits to seniors. Over the next 10 years this surplus will amount to nearly \$1 trillion. Second, we should examine other areas of the federal budget that could be reduced and dedicate the savings to helping finance PSAs. We at Cato have identified almost \$100 billion a year in corporate welfare. Cut these Fortune 500 subsidies and use the savings to finance PSAs. Finally, the federal government should issue 50 year liberty bonds--taking advantage of the current low long term interest rates--to fund the remaining transition to PSAs. This reasonably spreads the cost of the transition to a new Social Security retirement system across future generations. This seems to be an equitable solution, since future generations will be the primary beneficiaries of a fully funded, high rate of return, PSA system.

Stephen Moore is director of fiscal policy studies at the Cato Institute.



BOSTON COLLEGE

THE PETER F. DRUCKER CHAIR IN MANAGEMENT SCIENCES
THE WALLACE E. CARROLL
SCHOOL OF MANAGEMENT

STATEMENT OF ALICIA H. MUNNELL'

The best way to assure all Americans an adequate basic retirement income is to maintain the current defined benefit structure and not to move toward a system of defined contribution accounts. Let me briefly summarize the reasoning behind that conclusion.

I. Social Security is not facing a crisis. The projected increase in Social Security spending due to the aging of the population is neither enormous nor unprecedented. The cost of the program is projected to rise by 2 percent of GDP. Budget changes equal to 2 percent of GDP are not uncommon; defense spending increased by 5 percent of GDP at the start of the cold war and declined by 2 percent between 1991 and 1998. The financing situation does not require radical change.

II. The desire to increase national saving and broaden investment options for workers--changes that have been used to justify individual accounts--can be achieved more effectively within the structure of the current program.

- The federal government can accumulate reserves. The non-Social-Security portion of the budget is headed for balance in 2002. We can keep it there and build up reserves in the Social Security trust funds. The states do it for their pension funds; the federal government should be able to do it for its major retirement system.
- Broadening Social Security's investment options to include stocks is feasible. We know how to prevent interference in private sector activity: set up an independent investment board, invest in a broad index, and delegate voting rights to fund managers.

III. The economics are clear: Social Security's defined benefit plan is better than individual accounts for providing Americans with their basic retirement pension.

- Because Social Security is a defined benefit plan, it can spread risks across the population and over generations. This means that individual retirees would not risk large losses in the stock market just as they approach retirement. The risks would not disappear, but gains and losses could be averaged over time and among the entire population.

* The author served as a Member of President Clinton's Council of Economic Advisers and Assistant Secretary of the Treasury for Economic Policy.

- Pooling investments in the Social Security trust funds also keeps transaction costs low, ensuring higher net returns than individual accounts. Administrative costs for individual accounts are likely to amount to a 20-percent cut in benefits. Data from the U.K. and Chile, countries that have adopted individual accounts, suggest that the costs could be even higher. Annuitizing individual accumulations reduces benefits by another 10 percent.
- Social Security also avoids the pressure for individuals to gain early access to their accounts, leaving retirees with inadequate retirement income. This risk is very real; individuals already have access to funds in IRAs and 401(k) plans.
- Social Security assures that accumulated funds are transformed into inflation-indexed annuities so that retirees do not outlive their retirement resources. Private annuities are over-priced for the average person, and Inflation-adjusted annuities are not available in the private sector.
- Social Security provides full benefits for disabled workers who would not have time to build up adequate reserves under a system of individual accounts. Disability benefits would be cut under all existing plans for individual accounts.
- Social Security protects women. It provides spouse's and widow's benefits; it automatically provides inflation-adjusted annuities (women live longer than men), and it protects divorcees (after ten years of marriage). Private accounts contain none of these protections.
- Finally, Social Security protects those with a lifetime of low earnings by replacing a greater percentage of earnings for low earners than for high earners. This redistributive component would be lost to the extent that payroll taxes were diverted toward individual accounts.

IV. There is no reason to move towards a defined contribution system; much of the projected shortfall can be eliminated with good policy changes.

- For example, extending coverage to new state and local workers, slightly increasing the maximum taxable earnings base, and reflecting BLS corrections to the CPI in the COLA are all consistent with the goals of the program.
- Broadening the investment options for the trust funds to include stocks will increase the return on fund reserves and close the remaining financing gap.

V. The argument against individual accounts applies only to the basic retirement income. On top of a fully financed Social Security system that preserves today's promises, voluntary supplemental individual accounts administered by Social Security are a good idea. They would encourage additional saving and keep administrative costs to a minimum.

Robert J. Myers
9610 Wire Avenue
Silver Spring, Maryland 20901
301-588-1335 FAX 301-588-7809

STATEMENT AT WHITE HOUSE CONFERENCE ON SOCIAL SECURITY

BY ROBERT J. MYERS*

In order to be appropriate and meaningful, any necessary reform of the Social Security program should recognize the importance of two elements--its basic purpose and its current and long-range financial status.

Nature of the Social Security Program

From the inception of the Social Security program in 1935, it has always been a social insurance system designed as an income-maintenance plan in the event that certain risks occur -- currently, age or disability retirement and death of the worker (either before or after retirement). Conversely, it was not intended to be an investment plan, under which every participant is supposed to receive the same investment rate of return.

Rather, the Social Security program is a mixture of individual equity and social adequacy, with emphasis on the latter. For example, larger benefits relative to contributions are paid in some cases than in others -- e.g. (1) workers near retirement age at the start of the program, (2) low-earnings workers, and (3) workers with dependents.

Public education is based on social adequacy principles, rather than individual equity ones -- even more so than is the Social Security program. Thus, two families with the same number and ages of children receive the same education benefits, and yet the family with a mansion pays much more real estate school taxes (i.e., a lower rate of return) than does the one with a modest home. Similarly, a family which never has children receives a very poor "rate of return" on its school taxes (unless one takes a broader view as to what is good for the nation).

Current Financial Status of Social Security Program

From a short-range cash-flow standpoint, the Social Security program is in excellent condition. At the beginning of 1998, the trust-fund balance was \$656 billion, an increase in the past 12 months of \$89 billion. It is likely that, in the next decade, the annual excesses of income over outgo will increase to a level of about \$150 billion. Thereafter, however, according to the intermediate estimate in the 1998 Trustees Report, such excesses will become smaller, and after a decade will cease to exist (and, in fact, will turn negative). As a result, the trust-fund balance will decrease and will become exhausted in 2032.

FELLOW, SOCIETY OF ACTUARIES
FELLOW, CASUALTY ACTUARIAL SOCIETY
MEMBER, AMERICAN ACADEMY OF ACTUARIES
FELLOW, CONFERENCE OF CONSULTING ACTUARIES
MEMBER, INTERNATIONAL ASSOCIATION OF CONSULTING ACTUARIES
MEMBER, INTERNATIONAL ACTUARIAL ASSOCIATION

Robert J. Myers
9610 Wire Avenue
Silver Spring, Maryland 20901
301-588-1335 FAX 301-588-7809

A good measure of the long-run financial status of the Social Security program is the long-range actuarial balance. This element, expressed as a percentage of taxable payroll, if negative, indicates the increase in the combined employer-employee tax rate which would be needed immediately if the program is to be fully financed over the 75-year valuation period. According to the intermediate estimate, the long-range actuarial balance is -2.2% of taxable payroll. On the other hand, the low-cost estimate shows a small positive balance, while the high-cost estimate shows a much larger negative balance.

The conclusion to be drawn is that a significant, but not overwhelming, long-range financing problem very likely exists. This can be solved in numerous ways within the existing structure of the program. However, solving the problem by the simple, not too painful, method of increasing the combined employer-employee tax rate by 2.2% is not a complete solution, because insufficient financing would be present after the end of the 75-year valuation period.

What would happen if the assumptions of the intermediate estimate were exactly fulfilled, and the combined employer-employee tax rate were increased by 2.2%, is that huge fund balances would be built up in the next few decades and thereafter drawn down. So, at the end of the 75-year valuation period, the fund balance would be only one year's outgo, and a higher tax rate (by about 4%) would be needed thereafter. This would hardly be a reasonable way to solve the problem.

* Chief Actuary, Social Security Administration, 1947-70.

Deputy Commissioner of Social Security, 1981-82.

Executive Director, National Commission on Social Security Reform, 1982-83.

**NATIONAL
ACADEMY
OF SOCIAL
INSURANCE**

Statement for White House Conference on Social Security

Pamela J. Larson, Executive Vice President
Virginia P. Reno, Director of Research
National Academy of Social Insurance, 202-452-8097

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The National Academy of Social Insurance is a non-profit, non-partisan organization of 500 of the nation's leading experts on social insurance. The Academy conducts objective, non-partisan analyses of Social Security, Medicare and other social insurance programs. It does not take positions on legislation or policy issues. Its members hold diverse views on policy proposals.

The Academy is founded on the premise that, through research and education, it can contribute to sound policy development of social insurance that fits with the needs and values of the American people. Our staff and expert members are available to help policy makers reach informed decisions.

Our major study by a blue-ribbon panel on *Evaluating Issues in Privatizing Social Security* was released on November 23, 1998 and is available from the Academy and our website, www.nasi.org. Our new book, *Framing the Social Security Debate: Values, Politics and Economics*, includes essays from 30 experts with varied views on Social Security reform. It is available from Brookings Institution Press and is summarized on our website. *Social Security Briefs* are also on the website.

Our recent research reveals widespread agreement among experts, as well as sources of their disagreements, on Social Security reform.

- First, experts agree that Social Security faces a long-range Financing short-fall, not a near-term crisis.
- Second, experts agree that it is prudent to restore long-term balance sooner rather than later.
- Third, past approaches to balance Social Security used a combination of gradual benefit reductions and future tax increases. Experts agree that these must be part of any reform that achieve balance. There is no free lunch.
- Fourth, new economic issues in the current Social Security debate, while sometimes confusing, are not a major source of disagreement among experts. Three new concepts are: (1) prefunding; (2) diversifying investments; and (3) privatization. *Privatization* refers to proposals to set up individual savings accounts as part of Social Security. Such individually owned accounts would be a significant change from the traditional system, which shares across all

1776 Massachusetts Avenue, NW
Suite 6 IS
Washington, DC 20036-1904

Telephone (202) 452-8097
Facsimile (202) 452-8111
E-mail nasi@nasi.org
Website: www.nasi.org

contributors protection against the risks of disability, death of a family worker, a low-earning work life, and the prospect of living a long time in old age. By *prefunding*, experts refer to building up more funds inside Social Security to help pay future benefits. It requires sacrifices in the near term -- either higher taxes or lower benefits -- in order to set aside more funds for the future. By *diversifying investments*, experts refer to changing the current policy of investing Social Security funds only in Treasury bonds to include investing part of the funds in stocks and corporate bonds. Many economists agree on the desirability of *prefunding* and *diversifying investments*, which could be done with similar economic effects in either the traditional system or in privatized accounts.

- Experts differ on the desirability of setting up privatized individual Social Security accounts.
- The heart of the privatization debate is about values -- for example, how much one values individual choice and control, on the one hand, versus collective provision for shared security, on the other. On values, experts differ.
- Experts also differ in their personal predictions about how future political events might unfold with and without privatization. These differences are outlined in *Evaluating Issues in Privatizing Social Security* and are examined by political scientists in *Framing the Debate*.

To date, there has been much analysis of how individual accounts would be invested, but relatively little attention to the kinds of benefits they would pay to workers and their families at retirement, or when a worker dies or becomes disabled before retirement. It is not yet clear how individually-owned accounts would achieve the purpose of Social Security. If it is hoped that they will, more attention to their benefit design is warranted.

The National Association of Manufacturers represents both large and small firms. Of our nearly 14,000 members, 10,000 have fewer than 500 employees with many in the 50 and 100-employee range. Some 18 million people are employed in manufacturing in the U.S. NAM's chairman for 1998-99 is Calvin Campbell, President of Goodman Equipment Corporation in Illinois with 65 employees.

Social Security reform is the NAM's top legislative priority for the opening months of the 106th Congress. To fulfill its promise to the American people, a reformed Social Security retirement system must adhere to the following principles:

1. Preservation of existing benefit levels for the current and near-retired;
2. Permitting workers to invest a portion of their FICA contributions in individually-controlled and owned Personal Retirement Accounts;
3. Protecting all retirees with a government-guaranteed safety net.
4. Accomplishing the above with no increase in taxes.

With the profound belief that no single domestic policy issue affects long-term U.S. economic growth more than Social Security, the NAM Board of Directors in 1997 endorsed the above principles. In addition to the NAM, these principles were also endorsed on December 2 at a rally kicking-off the "Campaign to Save and Strengthen Social Security" by 42 groups representing women, the self-employed, African-Americans, Hispanics, young people and seniors, in addition to businesses of all sizes and types.

Campaign members recognize that Social Security faces a demographic crisis and financing shortfall of \$9 trillion and that raising taxes 50 percent to resolve this shortfall is unacceptable. They know that today's young workers will get back a negative return on their lifetime FICA contributions and that future retirees will receive only 75 percent of promised benefits if nothing is done to fix Social Security. For these reasons, the NAM and campaign members support Personal Retirement Accounts as part of Social Security reform to enable individuals to save and invest for retirement and pass on any remaining savings to survivors and heirs, something not currently possible under Social Security.

Investing a portion of the current FICA tax (2 percent for example) in Personal Retirement Accounts will provide retirees with a greater return than the average 2 percent currently available from Social Security. Experience has shown that investment in the private market over the long term is not inherently risky. For the period 1926- 1996 (a period which included the great crash of 1929), the return was 7 percent.

Personal Retirement Accounts are a tested concept with operational systems in such countries as Chile, Australia and the United Kingdom and with Sweden's nearly ready for

implementation. These nations, like the United States, have aging populations making traditional pay-as-you-go systems unworkable over the long term. And in the United States, 2.3 million federal employees participate in the Thrift Savings Plan that permits workers to select from various investment vehicles for retirement.

The traditional solutions of fixing Social Security by raising taxes (either increasing the rate or raising the wage cap) are unacceptable. Already 70 percent of Americans pay more in payroll taxes than they do in federal income taxes. Today's payroll tax of 12.4 percent (shared by employer and employee) is levied on the wage base of \$68,400, and in 1999, the wage base rises to \$72,600—a six percent increase. Increasing taxes further will only hurt jobs and not solve Social Security's long-term demographic problems.

The NAM has been actively working to bring about reform by establishing a lobbying coalition, the Alliance for Worker Retirement Security, working with members of Congress, serving on the CSIS Commission on Retirement Policy, developing written and electronic materials to educate our members and their workers and convening grassroots forums around the country. Our goal is a remodeled Social Security system that takes care of seniors, does not overly burden today's workers, promotes economic growth and jobs for America's next century and enables ordinary citizens to accumulate real wealth.

For further information on the NAM's Social Security reform efforts, contact Sharon Canner, Vice President of Entitlement Policy, 202/637-3040 or by email scanner@nam.org.



NARFE

National Association of Retired Federal Employees

606 North Washington Street
Alexandria, Virginia 223 14- 1914
(703) 838-7760 • FAX (703) 838-7785
<http://www.narfe.org>

Social Security Reform

The 430,000 members of the National Association of Retired Federal Employees are vitally interested in joining the national debate on Social Security reform.

In October President Clinton held a roundtable discussion on retirement security for women that highlighted the case of Wilma Haga from Tennessee. Mrs. Haga is a 76 year old cafeteria worker with a small pension who states she could not survive without the Social Security check she gets each month based on her husband's work under Social Security.

There are many thousands of widows in this country not as fortunate as Mrs. Haga because the Government Pension Offset (GPO) prevents them from receiving any widow's benefits from Social Security. Because of the 1977 GPO amendment to the Social Security Act, retired federal, state, and local government employees who were not covered under the Social Security system lost this valuable survivorship protection. This is particularly devastating for women with short careers in government service in lower level jobs who, as a result, receive low annuities or pensions. Two-thirds of the amount of the government annuity or pension offsets the Social Security widow's benefit, totally eliminating it in many cases.

In addition to the GPO, the Windfall Elimination Provision (WEP) further unfairly reduces the income of many women and men by reducing their own earned Social Security by about 50%. The WEP was part of the 1983 Social Security Amendments. For example, a widow may have worked ten years for the government and ten years in the private sector. Her widow's benefit is offset by the GPO and her own Social Security is reduced by 50%. Where is her retirement security? It seems inconceivable that Congress would have intended that women should be affected by both the GPO and the WEP.

Last May, NARFE member Bernadine A. Jemigan, testified before the House Social Security Subcommittee. Affected by both the GPO and WEP, she asked Chairman Jim Bunning, "Why are government employees being punished? Where is the fairness in this WEP and GPO legislation? Why must we continue to fight for the benefits we were promised and have already paid for? Are we going to our graves fighting this discrimination?"

National Association of Retired Federal Employees

Frank G. Atwater
PRESIDENT

Margaret L. Baptiste
VICE PRESIDENT

John Walker Hartigan
SECRETARY

Charles L. Fallis
TREASURER

So far, approximately 243,000 retired federal, state, and local government employees have been affected by the GPO and some 356,000 by the WEP.

NARFE insists that any reform of Social Security must address reform of both of these penalizing provisions. Not only must these debates make certain Social Security is strong for all, we must also make certain it is fair to all.

In addition to including the GPO and WEP issues in the discussion on Social Security reform, we do have other areas of concern:

- Cost-of-Living Adjustments (COLAs) Full COLAs, based on a valid Consumer Price Index (CPI), are not benefit “increases”. COLAs provide necessary inflation protection for those who are retired or disabled. Some have suggested that the COLA be based on a lesser CPI. NARFE opposes any proposal that would legislate an across-the-board percentage reduction of the COLA.
- Means-Testing NARFE is unalterably opposed to means-testing Social Security benefits. Almost every American worker pays Social Security taxes and, upon retirement, receives a monthly benefit amount formulated on his or her lifetime earnings. It would be entirely inappropriate to penalize retired workers by reducing their Social Security benefits because they have successfully provided for their retirement with savings, investments and private pensions.
- Increasing the Retirement Age Under present law, the retirement age increases from 65 to 67 gradually over a period of years ending with 2022. Some reform proposals would accelerate that process so that age 67 is reached much sooner. The proposals would also increase the early retirement age from 62 to 64. NARFE opposes acceleration of the age 67 retirement age and an increase in the age for early retirement. This is not good public policy, primarily because those in poor health or in strenuous physical labor jobs could not stay in the workforce longer, and would be hurt the most.
- Privatization of Social Security There have been many proposals to privatize Social Security, all the way from instituting individual retirement investment accounts to investing Social Security trust fund securities in the stock market. Regardless of what the proposal is, NARFE fears that Congress may legislate something that has not been fully researched and studied. Any privatization would drastically alter the original concept of our Social Security program that has been so successful all these 63 years. The benefit and administrative consequences of any such plan must be a major issue for all of us.

**THE NATIONAL CAUCUS AND CENTER ON BLACK AGED, INC.
1424 K Street, NW, Suite 500, Washington, DC 20005-2407
202-637-8400 * Fax# 202-347-0895**

**Statement by
National Caucus and Center on Black Aged, Inc.
White House Conference on Social Security
December 2, 1998**

Social Security's long-range actuarial deficit is currently about 2.19 percent of taxable payroll. This is a manageable deficit that can be corrected without imposing draconian cuts in benefits for low-income and other Social Security beneficiaries. Social Security's financing can be strengthened without the necessity of undermining the core principles that have made Social Security the most successful program in our nation's history. This objective can also be achieved without raising the payroll tax rate for employees and employers. The National Caucus and Center on Black Aged (NCBA) has a blueprint to place Social Security in long-range actuarial balance. This is a plan that is fair and protects low-income Americans from shouldering a disproportionate burden in strengthening Social Security's financing. It will also maintain the features that have made Social Security so vital and effective for American families.

Alternatives NCBA Opposes

Before discussing the proposals to place Social Security on a sound long-range financial footing, NCBA believes it is imperative to discuss briefly alternatives that NCBA adamantly opposes.

First, NCBA is unalterably opposed to privatizing the Social Security system either partially or fully. Both the Personal Security Account (PSA) plan and the Individual Accounts (IA) plan are assaults on the Social Security system and would be a disaster for low-income persons and the vast majority of other Americans. Privatization proposals place family security at risk by trading a defined-benefit plan with statutory enforceable rights in the courts for a return on an investment that is subject to the vagaries of the market. The harsh reality is that returns will fluctuate widely from year to year and from decade to decade. Financial returns will depend upon market conditions, timing, and an individual's investment skills.

Second, NCBA strongly opposes proposals to increase the retirement age for full benefits or to move up the effective date for raising the retirement age to **67** under present law. African Americans are among the big losers under this proposal because of their shorter life expectancy. In addition, the greater actuarial reduction that accompanies proposals to raise the retirement age will adversely **affect African** Americans because they must oftentimes take Social Security benefits at an earlier age since they have a tendency to be employed in physically demanding jobs that prevent them from working to more advanced ages. Moreover, many African Americans must grab for earlier Social Security benefits because they have physical ailments preventing them from being gainfully employed but not sufficiently severe to meet the strict disability requirements.

Third, NCBA will resist with all its power measures to reduce or delay the Social Security cost-of-living adjustment (COLA). There can be no sugarcoating for these proposals because they will effectively force many older Americans to slip below the poverty line, and perhaps several hundred thousand depending upon how the measures are structured. Surely there are more humane and effective proposals to strengthen Social Security without offering up the most vulnerable as cannon fodder to achieve this objective.

Proposals to Place Social Security on a Sound Long-Range Financial Footing

NCBA proposes to place Social Security's long-range financing in actuarial balance through a series of measures to improve the return on investment for the trust funds, make Social Security a more universal program, and obtain additional revenue.

Increase Maximum Wage Base: The maximum wage base for Social Security cash benefits (\$68,400 in 1998 and \$72,600 in 1999) is adjusted annually based upon the average wage level for all U.S. workers. NCBA supports a 5-percent increase for each year during the period 2000 to 2009 in the maximum taxable wage base above and beyond the automatic adjustment. Approximately 84.5 percent of all workers now have their wages fully covered by Social Security. This adjustment would provide full coverage for more workers and would be more in line with the situation that existed when Social Security first began. **Projected savings: about 0.58 percent of taxable payroll.**

Extend Coverage for State and Local Government Employees: Social Security should be extended to new hires for state and local government workers starting in 2011. This will not only help to make Social Security more universal but will also provide additional protection for these newly covered state and local government employees. Social Security is a portable system that follows workers from job-to-job with a defined benefit and inflation protection. **Projected savings: about 0.18 percent of taxable payroll.**

Tax Social Security Like Contributor-v Private Pensions: Social Security benefits are taxable when one-half of an individual's Social Security benefit and other reportable income (e.g., interest income, dividend income, tax-exempt interest income, pensions, and other sources) exceed certain levels: \$25,000 for single filers and \$32,000 for joint filers. NCBA believes, as many tax experts do, that Social Security should be treated similarly to a contributory private pension with the current taxing thresholds phased out over ten years, starting in the year 2000. This can be achieved by counting as reportable income all benefits above what a worker paid into the system. **Projected savings: about 0.36 percent of taxable payroll.**



The National Committee to Preserve Social Security and Medicare's Viewpoint On

SOCIAL SECURITY REFORM

Social Security continues to serve individuals in this country well as our nation's most successful federal initiative. It provides a foundation of retirement income which permits seniors to live in dignity and helps relieve younger family members of the obligation for their support. Social Security benefits Americans of all ages. In addition to retirement and spousal benefits, workers receive insurance protection that provides benefits to themselves and their families if the wage earner becomes disabled or dies. In fact, thirty-eight percent of all Social Security benefit dollars go not to retired workers, but to disabled individuals, spouses of retired and disabled workers, dependent children and survivors. Ninety-eight percent of children under age 18 in the United States can count on monthly cash benefits if a working parent dies.

Without Social Security half of all seniors would fall into poverty. In fact, Social Security keeps more than 15 million people of all ages above the poverty line. In a very real sense, Social Security is the most effective anti-poverty program this nation has ever enacted. The reason that it is so effective is that it is not a needs based welfare program. Benefits are paid as a matter of right in return for contributions throughout an individual's working years. Social Security provides benefits in a manner that is progressive and fair: lower-income workers get back a higher percentage of their earnings as Social Security benefits, but the more someone has paid in the higher their benefit check. Social Security is cost effective, financed equally by employer and employee, portable from job to job, provides inflation-adjusted benefits, and covers earnings over a working lifetime up to the taxable wage base.

Social Security is not in crisis. Its long-term fiscal health is manageable. Even if no changes are made, Social Security will have ample resources to cover 100 percent of benefit obligations through 2032, and 75 percent thereafter. Throughout its history, Social Security has adapted to changing economic and demographic conditions. In fact, Social Security has a remarkable and proven history of durability. The challenge Social Security faces is to correct the projected shortfall and ensure the system remains strong and vital for generations to come. Fortunately, reasonable and moderate adjustments in revenues and benefits can accomplish this.

Social Security's long-term solvency should be strengthened, so that it continues to provide a reliable, guaranteed base of retirement, disability and survivor's income. The National Committee to Preserve Social Security and Medicare remains committed to maintaining Social Security as a system of social insurance that pools risk among all workers.

Replacing any part of the current system with individual retirement accounts would erode Social Security's fundamental qualities and force each worker to bear the risk that his or her account may prove inadequate.

Moving to a system of individual accounts is also enormously expensive; the transition costs workers would be forced to pay could exceed \$2 trillion for a partially privatized system. Totally privatizing Social Security would likely cost as much as \$7 trillion. Essentially, American families would end up paying more money for less retirement security. There are many options for bringing Social Security back into long-range balance without replacing any part of the program with a system of individual accounts.

Some of the options that the National Committee supports are:

- Making the program universal by covering newly hired state and local government employees.
- Increasing the maximum amount of annual earnings subject to Social Security tax and credited for benefits.
- Investing part of Social Security's accumulated reserves in broadly indexed equities funds. The investment policy should be designed to prevent investing to achieve social or political objectives. A contingency reserve sufficient to pay benefits for at least one year should remain invested in long-term Treasury bonds.
- Other modest benefit reductions implemented with ample notice and planning for future beneficiaries such as increasing the length of the wage-averaging period from thirty-five years to thirty-eight years.

Although Social Security will face new challenges as the baby-boomer generation moves into retirement and longevity increases, these challenges can be met without dismantling the United States' remarkable and successful system of social insurance. Social Security is a unique blend of reward for individual effort and, at the same time, perhaps our strongest expression of community. Instead of eroding Social Security's basic protections, we should strengthen and fine tune the system so that it continues to provide a safety net that is essential to millions of Americans of all ages.

**THE NATIONAL COUNCIL OF LA RAZA
VIEWS ON THE IMPACT OF THE SOCIAL SECURITY DEBATE
ON HISPANIC AMERICANS**

Submitted to the White House Conference on Social Security
December 2, 1998

The National Council of La Raza (NCLR), the nation's largest national Latino civil rights organization, applauds the Clinton Administration's efforts to facilitate a bipartisan dialogue on this issue. We also believe that much more information is needed in order for the public to make informed choices about the direction and shape that Social Security reform efforts should take.

Notwithstanding this, NCLR believes that the potential Social Security problem and proposed reform plans could have an adverse effect on the Latino community. This is largely because Hispanics are a growing proportion of present and future contributors and beneficiaries of the Social Security system. For example by 2010, 2020, and 2030, Latinos are projected to account for 13.2%, 15.2%, and 17.2%, respectively, of all U.S. workers. Moreover, between 1997 and 2030, the number of Hispanic elderly is expected to triple; in 2030, Hispanics over age 65 are projected to comprise 11.2% of the U.S. elderly population. Furthermore, in 1996, 1.1 million Hispanic elderly received Social Security, which for many was their primary source of income, and averaged \$6,747 in total yearly benefits.

NCLR is currently in the process of examining the potential implications and impacts of the various Social Security reform proposals on the Hispanic community. As the policy process continues, we believe that it must take the following considerations into account:

Given that the Social Security system will become more dependent on Latino workers for revenue, it is imperative that their educational and employment outcomes be improved. Hispanics comprise an increasing share of the U.S. population and labor force. Currently, the majority of Latinos have only a high school education and are concentrated in low-wage occupations. However, if Hispanic educational attainment were increased, employment prospects would be enhanced, and earnings levels would rise. This "chain reaction" would result in greater payroll tax revenue, less pressure to provide for retirees, and consequently less need to change the current Social Security system drastically.'

Since the Social Security system will begin paying benefits to more Latino retirees, any reform proposals must be progressive, to ensure a decent retirement for the most needy. The growth of the Hispanic population over the next few decades will be concentrated in part among those 65 years and over. Given that the current Hispanic

elderly population relies heavily on the Social Security system for income, it is likely that a significant share of tomorrow's retired Latino workers will do the same. Therefore, any reform of the system must factor in the growing Hispanic elderly population, and its potential for reliance on Social Security for retirement security.

In addition to Social Security, other methods to help Latinos build a financially secure retirement should be studied and advanced. Latino households held under one-third (30.2%) the assets (including home equity; financial assets, such as stocks or bonds; and real assets, such as cars) of White households in 1995.ⁱⁱ It is also likely that Latinos do not save and invest due to their overall low level of "financial literacy." According to the 1998 Employee Benefits Research Institute Survey, a large segment of Latino respondents did not have access to and/or use financial planning information. Furthermore, Latinos have extremely low pension plan coverage because they are concentrated in low-wage jobs that do not offer retirement savings plans. Of the 12.3 million Hispanics in the U.S. labor force in 1995, one-third (32%) had employee pension plans, compared to one-half (51%) of Whites and two-fifths (44%) of other minorities.ⁱⁱⁱ Therefore, increasing Latino access to positions which pay better and provide pension plan coverage, as well as to financial planning information could simultaneously diminish the strain on the Social Security system and enhance Latino retirement security.

Further research is needed to assess fully and accurately the effects of various Social Security reform options on the Hispanic community. Various features of the Social Security system interact in complex ways; as a result, sophisticated economic models generally are required to produce precise projections of the impact of alternative proposals on specific income groups. For Latinos, even these analyses are often inadequate, because they do not fully account for the community's demographic and employment characteristics. Given the scope and magnitude of the potential impacts on Latinos as a result of changes in the Social Security system, any major reform debate should be informed by the most complete, accurate, and inclusive data available.

Latino workers and retirees will respectively be greater contributors to, and beneficiaries of, the Social Security system when financial constraints are projected to affect it in the next 15 to 30 years. Accordingly, a joint federal and community-based effort must seek to develop this critical population base financially, by helping to move more Latinos into higher-paying occupations with retirement savings plans, and to heighten their "financial literacy," both of which begin by improving Latino educational outcomes. Any consideration of reform of the Social Security system must take into account the impact of the current Social Security structure, in addition to proposed reforms, on the Latino community, not only for the benefit of Latino retirees by reducing poverty and enhancing retirement security, but also for the nation, by helping to avert a potential crisis.

ⁱ Sorensen, Stephen, and Dominic J. Brewer, Stephen J. Carroll, and Eugene Bryton, RAND, 1995; and Pérez, Sonia M., *Latino Education: Status and Prospects*. Washington, D.C.: NCLR, July 1998.

ⁱⁱ *Racial and Ethnic Differences in Wealth in the Health and Retirement Study*, RAND, 1995.

ⁱⁱⁱ "Hispanic Americans and Pensions," U.S. Department of Labor, October 1997.

WOMEN'S CHECKLIST ON SOCIAL SECURITY REFORM

KEEP THE HEART **in social security**

Social Security is the heart of our nation's social insurance program, providing universal coverage for workers and their families through the pooling of resources that guarantees benefits to all. Check each reform proposal to see if it meets the women's check test.

DOES THE REFORM PROPOSAL . . .

CONTINUE TO HELP THOSE WITH LOWER LIFE-TIME EARNINGS, WHO ARE DISPROPORTIONATELY WOMEN?

Social Security's benefit formula is structured so that the lowest paid workers receive benefits that replace a higher proportion of their pre-retirement earnings than higher-wage workers. Many of the lowest paid workers also have no pensions from their jobs. Any reform must retain this feature benefitting lower-paid workers.

MAINTAIN FULL COST OF LIVING ADJUSTMENTS?

Social Security's annual cost-of-living increase (COLA), which is indexed to inflation, is a crucial protection against the erosion of benefits. Because women live longer than men, on average, and rely more on Social Security since they often lack other sources of retirement income, this provision is particularly important to women. Even when employment-based pension income is available, it is rarely inflation-protected.

PROTECT AND STRENGTHEN BENEFITS FOR WIVES, WIDOWS, AND DIVORCED WOMEN?

Social Security's family protection provisions help women the most. Social Security provides guaranteed, inflation-protected, life-time benefits for the wives of retired workers, widows, and many divorced women, many of whom did not work enough at high enough wages to earn adequate benefits on their own accounts. (Similarly low-earning men married to higher-earning women also have these protections; however, while 63 percent of female Social Security beneficiaries aged 65 and over receive benefits based on their husbands' earning records, only 1.2 percent of male Social Security beneficiaries aged 65 and over receive benefits based on their wives' earning records.)

PRESERVE DISABILITY AND SURVIVOR BENEFITS?

Social Security provides benefits to 3 million children and the remaining care-taking parent in the event of the premature death or disability of either working parent. Spouses of disabled workers and the widows (or widowers) of workers who died prematurely also receive guaranteed life-time retirement benefits. Two out of five of today's 20 year olds will face premature death or disability before reaching retirement age.

PROTECT THE MOST DISADVANTAGED WORKERS FROM "ACROSS-THE-BOARD" BENEFIT CUTS?

Some proposed "across-the-board" benefit cuts such as raising the retirement age or the number of years of work history used in calculating benefits would disproportionately hurt those with the most physically demanding or stressful jobs who cannot work more years, as well as those who have low life-time earnings, including many women (because they move in and out of the labor force to provide family care), minorities, temporary, seasonal and part-time workers, agricultural workers, and the chronically under and unemployed. These workers are also unlikely to have other employer-provided retirement benefits.

ENSURE THAT WOMEN'S GUARANTEED BENEFITS ARE NOT REDUCED BY INDIVIDUAL ACCOUNT PLANS THAT ARE SUBJECT TO THE UNCERTAINTIES OF THE STOCK MARKET?

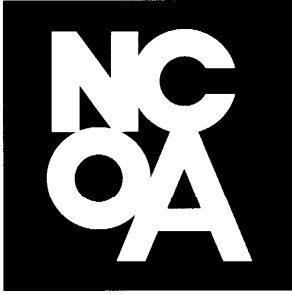
Proposals to divert workers' current payments from the Social Security system into individually-held, private accounts, whose returns would be dependent on volatile investment markets and would not be guaranteed to keep pace with inflation nor provide spousal benefits (including benefits to widows and divorced women), would reduce the retirement income of many women. Without the guarantees of a shared insurance pool, cost-of-living increases, and spousal and lifetime benefits, many women could easily outlive their assets.

ADDRESS THE CARE-GIVING AND LABOR FORCE EXPERIENCES OF WOMEN?

The Social Security system is based on marriage and work patterns that have changed. Currently, the benefit formula, which generally helps those with low life-time earnings, also favors those with 35 years of labor force participation, years which many women lack because of family care-giving. Moreover, the effects of sex-based wage discrimination during their working years are not fully offset by the more generous treatment low earners receive. Such issues as divorce, taking time out of the workforce for caregiving, the differences in current benefits between one and two-earner couples, and the inadequacies in benefits for surviving spouses must be considered at the same time that solutions to strengthening the financial soundness of the system are being sought.

FURTHER REDUCE THE NUMBER OF ELDERLY WOMEN LIVING IN POVERTY?

Social Security has helped reduce poverty rates for the elderly, from 35 percent in 1959 to less than 11 percent in 1996. In 1995, the poverty rate for all women over the age of 65 was 13.6 percent while the poverty rate among women aged 65 or older who lived alone was 23.6 percent. Without Social Security, the poverty rate for women over 65 would have been an astonishing 52.9 percent. Nevertheless unmarried women still suffer disproportionately; single, divorced, and widowed women aged 65 or older have a poverty rate of 22 percent, compared with 15 percent for unmarried men and 5 percent for women and men in married couples.



The National Council on the Aging Public Policy Statement on Economic Security, 1998-1999

409 Third St. SW Suite 200, Washington, DC 20024 202-479-1200 www.ncoa.org

The issues facing retirement income, such as privatizing Social Security and limiting defined benefit plans, will affect the entire workforce of today and of the foreseeable future.

NCOA is concerned about the impact of recommendations made by the 1994-96 Advisory Council on Social Security to partially or fully privatize the Social Security program, accelerate and increase the Social Security retirement age, and increase the basis for computing benefits from 35 to 38 years of wage-covered employment. NCOA also questions the wisdom of investing up to 37.5 percent of the Social Security Trust Funds in the equity and bond stock market.

NCOA recognizes that there is a need for an intensive debate and review of the Social Security program, especially with regard to assuring that the program will remain fiscally solvent and pay adequate benefits during the entire period when the so-called "baby boom" generation retires.

However, NCOA opposes such drastic proposals for change as full or partial privatization. The Advisory Council's partial privatization proposal would establish a new 1.6 per cent tax on Social Security and mandate covered employees to invest in one of six or so government-sponsored funds. The Advisory Council's full privatization proposal is even more extreme. It calls for an eventual phase-out of Social Security as we know it, including an estimated seven trillion dollars to pay promised benefits during a 72-year transition period and a new tax of 1.53 percent on payroll running from 1998 to 2070.

Social Security

NCOA reaffirms its strong and unqualified support for the nation's Social Security cash benefit program. That program now provides benefits to more than 45 million retired or disabled persons, and widows and children. It is a universal program that is based on an excellent 60-year history of contributory social insurance principles, involving the contributions of workers and employers in a system that protects against the loss of income because of retirement, disability, or death of a family wage earner. Moreover, it is a system based on statutory rights and covered employment. Lower-income workers, whose contributions represent a maximum percentage of earnings and who experience earlier mortality on average, receive benefits weighted to provide greater income replacement to lower income beneficiaries. This is a strong social adequacy feature of the program.

The Social Security Old Age, Survivors and Disability Insurance Program (Title II of the Social Security Act) is the basic underpinning of the nation's income-maintenance structure. It provides at least 50 percent of the total income for three out of five older Americans and keeps approximately 15 million individuals above the poverty line. However, Social Security was never expected to provide the total economic security required by American workers and their families in old age; private pension and individual pension systems (including personal savings) must be encouraged and fostered for all workers in our economy.

Social Security has the resources to meet benefit obligations to covered workers and their dependents for the next **three** decades. However, by the year 2020, the Social Security trust fund will likely collect fewer tax revenues than are needed to pay benefits; by 2032, revenues and fund balances are expected to be inadequate to meet benefit obligations. Congress and the executive branch must address this long-term solvency problem.

Experts at the Bureau of Labor Statistics, whose job it is to make adjustments to the Consumer Price Index (CPI) should be given the finances and tools to ensure an accurate assessment. That said, NCOA is particularly concerned with efforts to reduce *through legislation* the CPI. Any changes to the CPI would affect Social Security, military retirement, civilian retirement benefits, and means-tested programs such as Supplemental Security Income and food stamps, and taxes would also change. Medicare premiums are linked to the CPI. Any change to the CPI would have an enormous impact across all income maintenance and health programs. Changes in the CPI should not be based on political whims; rather, they should be based on scientific data.

NCOA also has serious reservations about the proposal to increase the normal retirement age under Social Security. This includes the concerns about the recommendation of the Advisory Council that would increase the computing period for Social Security from 35 to 38 years of wage-covered employment. Both provisions would have particularly negative consequences for women workers, who often have to leave the work force from time to time to serve as caretakers. A further increase in the retirement age would create hardship for African-American male retirees as well as blue collar workers who are often displaced from their regular jobs earlier than age 65.

Where NCOA Stands

The National Council on the Aging is committed to sustaining the performance that generations of working Americans have come to expect and rely upon.

- NCOA supports retaining the Social Security system's basis of universal coverage for all workers; payroll tax financing by both employers and covered employees; and a progressive, wage-related benefit structure.
- NCOA supports retaining the present schedule for raising the retirement age for Social Security to age 67 by 2022.
- Congress and the Administration should explore the advantages and disadvantages associated with investment of Social Security Trust funds into the equity and bond stock market.
- NCOA opposes provisions that would tend to "privatize" Social Security at the cost of reducing the present social insurance protections now existing for both current and future retirees.
- Steps should be taken to make Social Security more responsive to the needs and circumstances of women. This would include the creation of a basic benefit that would provide an adequate base of retirement income and improvements in the benefits now available to survivors, including divorced survivors and modification of the present "government pension offset" rule that penalizes unfairly many woman retirees.
- NCOA supports continued annual cost-of-living adjustments, based on fair and carefully assessed measures, and eliminating remaining gender inequities.
- NCOA supports modest adjustments to help solve Social Security's long-term financing problems;
- NCOA supports eliminating the use of the Social Security Trust fund to mask the deficit;
- The present requirement delaying a spouse's Social Security benefits for two years after a divorce should be eliminated altogether. Under current law, a divorced person age 62 and over may receive Social Security upon divorce if the former spouse is receiving Social Security, but must wait two years if the former spouse is employed. This can be a time of great hardship.
- The Social Security program should provide credit to a worker's Social Security benefit at a base amount for every year that the worker has cared for a severely disabled family member.

The National Council on the Aging is a private, nonprofit research, education, and advocacy organization. Founded in 1950, NCOA created the Meals on Wheels, Foster Grandparents, and many other innovative programs for seniors. Members include professionals and service providers in the field of aging, government agencies, and consumer, religious, and labor groups. For more information, visit NCOA's Web site at www.ncoa.org.

PEOPLE WITH DISABILITIES AND SOCIAL SECURITY REFORM

The National Council on Independent Living

The National Council on Independent Living (NCIL) is a national membership association for people with disabilities and centers for independent living (non-profit, community-based, non-residential organizations that are run by and for people with disabilities). NCIL is a cross-disability, grassroots organization run by people with disabilities, with a straightforward advocacy agenda: the full integration and participation of people with disabilities in our society.

Millions of children and adults with disabilities in this country receive Social Security disability insurance and Supplemental Security Income (SSI) benefits. These benefits and the health care coverage that comes with them -- are essential to our health, independence and very lives. One of NCIL's top priorities is Social Security reform, including the improvement of Social Security's work incentives programs. NCIL's Social Security Subcommittee, and hundreds of NCIL members, have worked tirelessly with the White House, Congress, and the Social Security Administration to eliminate barriers that currently prevent many of us from entering the work force.

When talking about Social Security reform and solvency of the trust fund, we are not only talking about retirement benefits. Social Security also provides income -- and critical links to health care -- to millions of workers and dependents with disabilities. One of the President's five core principles guiding reform is that the Social Security system must continue to provide financial security for Americans with disabilities. Yet virtually none of the media coverage on Social Security reform, or the public discussions at the bipartisan forums held around the country this year, have included this aspect of the President's plan. This must change in the coming year. *Americans with disabilities, and the disability insurance program, are essential elements -- not just a footnote -- to the solvency discussion, reform proposals and solutions.*

People with disabilities know first hand that the issues surrounding solvency of the Social Security Trust Fund are complex. It is easy to get lost in the discussions of privatization, redistribution aspects, and private capital markets. But the one thing that we cannot lose sight of are the very real lives that will be affected by any changes. The solutions and changes must be crafted carefully, with the continuous participation of the disability community. Discussions, proposals and recommendations about Social Security solvency must include the Social Security Disability Insurance (SSDI) program, and must include meaningful dialogue and feedback from those who have first hand knowledge of the strengths and weaknesses of the current program. We have significant knowledge and expertise to offer the Administration and Congress as they work on these issues.

NCIL respectfully recommends that the President and Congress consider these guidelines and recommendations as they continue their Social Security reform and solvency work next year:

*** Make no decision about us without us.** One of NCIL's guiding principles is that of consumer control, defined as vesting power and authority of a particular program in the consumers who are served or who benefit. The dialogue and work in the coming year about Social Security reform must include, at every step of the way and in every discussion, disability

insurance benefits. This means the President and Congress must be committed to encouraging and seeking active participation from the disability community, including individuals who are receiving disability benefits. President Clinton has said that the broad-based participation of the American public is critical to achieving a resolution of the long-term solvency issue. Consumers of the disability programs must play a pro-active role in policy development and implementation in both the specific SSDI discussions and in the larger Social Security solvency discussions.

*** Look at the changing relationships between work, disability and retirement.** The nature of work and disability in this country has changed drastically since the SSDI program was enacted. Thousands of people with significant disabilities work today because of advances in technology, education, law and public attitudes. Most Americans are living longer and healthier lives. Social Security reform must consider these changes and the interrelationship of these factors.

*** Re-examine the definition of disability and the all-or-nothing nature of the current disability programs.** If real reform is to happen in the area of disability insurance, we must begin to look at ways in which SSDI can become a transition, not a dead end. For people with disabilities to be truly part of mainstream America, and to truly live independently, we must develop a new way of looking at disability income support.

*** Coordinate changes in Social Security with other entitlements** for people with disabilities and elders, including SSI, Medicare and Medicaid. Any major changes in the SSDI and retirement systems will have a significant impact on other related entitlements. These interrelationships must be looked at and factored in to the reform discussions and proposals.

*** Start now to reform the Social Security work incentives programs.** The existing work incentives, intended to help people get off of the SSDI rolls and back into the workforce, are complicated and outdated. Many of us who try to use them find that they often actually function as disincentives, penalizing people who want to go back to work. Going back to work can mean losing the prescriptions, assistive technology, personal assistance, and health care that people need to keep healthy and live as independently as possible. These are the depressing realities of the existing work incentives. Legislation addressing our concerns was proposed last year in the House and Senate but was not passed. New legislation will be introduced again this year to begin to address these disincentives. We urge you to support those efforts and include them in your overall reform plan.

*** Work together -- with us and with each other.** Americans are tired of the extreme level of partisan bickering we've seen this year. We know this Administration and Congress are capable of coming together in a bipartisan way to create strong, creative solutions. We need you, our leaders, to work with us and for us not against each other.

NCIL applauds President Clinton's commitment to strengthening the Social Security system. We are honored to be invited to the first White House Conference on Social Security and expect it will be the first of many opportunities to work with the President and Congress on bipartisan reform of the Social Security system.



**NATIONAL
FARMERS
UNION**

STATEMENT OF CY CARPENTER, PAST PRESIDENT OF THE NATIONAL FARMERS UNION, ON BEHALF OF THE NATIONAL FARMERS UNION, SUBMITTED FOR THE WHITE HOUSE CONFERENCE ON SOCIAL SECURITY, WASHINGTON, D.C., DECEMBER 8, 1998

On behalf of the 300,000 families who are members of the National Farmers Union, we wish to thank you for holding this meeting. We recognize that reforming and strengthening Social Security is a very complex issue--too complex for National Farmers Union or any one entity to try to offer full-scale solutions. However, it is vital that we reestablish with both elected officials and the public, the underpinning security of the Social Security program. Our government's responsibility for maintaining Social Security is no less important than our similar responsibility for maintaining full faith and credit in our monetary system.

Further, while we recognize that Social Security has the responsibility to serve all, we wish to direct our attention to the area with which we are most familiar--its impact on farm families.

The nature of farming is such that individuals in agriculture, particularly those who are in the age range that have retired, have paid minimally to Social Security. Farmers do not pay themselves wages. This is especially true of farm women, who have certainly contributed to our economy, but in some cases, have not even established eligibility to receive Social Security. Their contribution has been enormous, and they should not be denied the opportunity to enjoy the benefits of Social Security.

Farming is one of the most dangerous occupations. Accidental deaths and injuries have resulted in a disproportionate number who need Social Security income, and in many cases, it may serve as their primary or only source of income. This population is especially vulnerable to changes in Social Security payments or eligibility requirements.

Social Security is identified by many as an entitlement. Yet, an entitlement is far more than just the money that has been paid into the system. Its underlying principle is that those persons who helped build our economy and society are entitled to share in its success. The quality of life that we enjoy are the result of the labors of those who have built our country, and should be shared by all, irrespective of the amount they paid in to Social Security.

Farmers have provided an abundance of food at below parity--the formula established by Congress to provide a measure of what the farming segment of society receives--for their labor, for a full generation. Any alteration of Social Security that would reduce their retirement, after contributing a lifetime of labor to feed our nation and others, is totally unacceptable.

The present economic situation in rural America underscores this contribution. Farmers are now selling commodities, at or below, Depression prices.

With respect to privatization – Social Security is a security offered by our government. It should have the full faith and trust that we offer on any other government trust, just like the guarantee we offer to those who purchase a government security note.

In recognition that there is an honest consideration of privatization as a means of making Social Security more secure, we can debate privatization, providing certain conditions are met: 1) those who would wish to use Social Security monies for industrial purposes should bid for that ability; and 2) they should provide appropriate collateral to assure that the principal would never be in jeopardy .

Our Federal Deposit Insurance Corporation (FDIC) provides assurance that those who put their money in banks will not lose their investment. Social Security should enjoy similar protection. Privatization under such conditions deserves consideration, since it could ensure that Social Security would continue to enjoy the full faith and credit of the United States, while at the same time, allowing a greater rate of return. Without that type of assurance, privatization must remain a low priority.

Adjustments to eligibility and payment levels, as reflected by the economic and social conditions may be in order. But the main focus must remain on establishing the absolute security of Social Security for all. We cannot reduce the value of Social Security any more than we would reduce the value of the dollar. The responsibility to preserve the Social Security system is as great as the responsibility for establishing the security of our monies.

Finally, there is a considerable amount of discussion about returning the surplus or providing a tax cut. We do not wish to get into that debate today, except to emphasize that the funds that have been borrowed from Social Security are a legitimate loan. They must be fully repaid before any other use is even considered.

Once again, thank you for the opportunity to be part of this debate. Reforming and preserving Social Security is an extremely important task, and the National Farmers Union looks forward to contributing to the solution.

Cy Carpenter can be contacted at 8200 Portland Avenue, Bloomington, MN 55420, or through the National Farmers Union, 400 Virginia Avenue, Suite 710, Washington, DC 20024.



***THE NATIONAL HISPANIC COUNCIL ON AGING (NHC CoA)
INSTITUTE ON HUNGER AND POVERTY POLICY***

27 13 Ontario Rd., NW
Washington, DC 20009

NHCOA 'S POSITION ON SOCIAL SECURIYY

Latino Elderly

Elderly Latinos are more dependent on Social Security than others because they are more likely to be in poverty than non-Latino elderly. They are also more likely to have been poor prior to old age than non-Latinos. While the 1990 average poverty threshold for a family of four was \$13,359, 21 % of Latino households had incomes below \$10,000, compared with 15 % of non-Latino households (Bureau of the Census, 1991). According to 1990 income figures, almost three times as many Latino individuals and families (28.1 %) fell below the poverty line as non-Latino individuals and families (9.5 %). The poverty rate for Puerto Ricans is even higher (37.5 %), and it is expected that rates for newly-arrived immigrants may face even higher rates of poverty. Of those living in poverty, over one in every six (17.9 %) was a Latino, and 4.1 % of this group were ages 64 and older.

Latino elderly remain economically vulnerable for a number of reasons. They frequently face limited employment opportunities in occupations that provide retirement pensions as a benefit, earn low wages, experience intermittent employment patterns, and, if they happen to have participate in a pension program, tend to accrue limited benefits, if any at all. Only half of American workers are currently covered by pension plans, and Latinos are less likely than others to be covered by such plans.

Many Latinos who have worked as farm workers or domestic workers have not had their Social Security taxes deducted and some may have paid their contributions, but their employers may not have forwarded these to the appropriate agency. As a result, some elderly Latinos may find themselves with limited or no Social Security benefits after a lifetime of hard work.

Because of factors identified above, Social Security provides many elderly Latinos with their sole or primary source of income in retirement. Because of low income throughout their working life, elderly Latinos may not have been able to accumulate savings and may depend almost exclusively on Social Security for their retirement income. The Social Security Administration (1996) reports that, for 36% of beneficiaries, including many Latinos, benefits represent between 50 % and 89 % of their income.

Given the inability of many Latino workers to save or depend on private pension programs for income in retirement and the major dependence on Social Security as the primary source of income in retirement, their future income security should not be jeopardized by eliminating, privatizing or fundamentally restructuring Social Security. No other program, public or private, offers the protection of OASDI. While Social Security is adequately financed for the next 32 years, legislative action needs to be taken to insure that future generations of elderly Latinos can continue to depend on it for economic security.

NHCoA Response to Social Security Restructuring Alternatives

1. Individual Retirement Accounts (IRAs). Despite the more than 60 years of success Social Security has enjoyed, some groups and individuals are promoting the concept of replacing part of the **current** Social Security program with a system of mandatory individual Retirement accounts. Although these

NATIONAL HISPANIC COUNCIL ON AGING
2713 Ontario Rd. N.W. ● Washington D.C. 20009
(202) 745-2521 (202) 265-1288 FAX (202) 745-2522 E-Mail: NHC CoA@aol.com

proposals vary, most would allow participants to choose how their money is invested, thus transferring investment risks to individuals. Although privatization could work well for some, others, such as low-income Latino seniors, disabled workers, and their families, could be adversely affected due to a variety of factors such as lack of sophistication about stock market investments and a higher degree of vulnerability should their investments fail.

2. Taxation of Benefits. Over time, an increasing number of beneficiaries will have their benefits taxed at the 85 % level because, unlike most other tax thresholds, the Social Security tax thresholds are not indexed to take inflation into account. Unlike the unindexed 1983 thresholds, which were intended to provide income for Social Security, the thresholds for the 85 % taxation level are, in essence, a surtax on the elderly. In addition, there are some recommendations that taxation on Social Security benefits be increased to 100 percent for higher income beneficiaries. A similar proposal suggests that 100 percent of social security benefits be subject to taxation similar to that of private pensions.

Proposals for taxation of all social security benefits similar to how private pensions are taxed would negatively affect lower income beneficiaries.

3. Cost of Living Adjustments (COLAs). Cost of living adjustments were recomputed for the 1983 amendments to the Social Security Act to be more in line with expenses of the elderly. COLAs are once again the targets of those attempting to keep Social Security from going broke due to the baby boomer increase in the number of beneficiaries. Some proposals suggest that the COLA be reduced by $\frac{1}{2}$ to one percent.

4. Social Security and Older Latino Women. Social Security discriminates against older Latino and other women who are not able to fully benefit from the program as presently structured due to intermittent work patterns due to child birth and child rearing, and to the increased rate of separation and divorce.

5. Raising the Eligibility Age for Full Benefits. The eligibility age for full benefits is scheduled to be raised from age 65 to age 67 gradually over the first 25 years of the next century. Actuarially reduced benefits will still be available at age 62, but these will only be 70 percent of full benefits, instead of the current 80 percent. In considering revisions for Social Security, there is some support for further increasing the eligibility age to 70.

6. Increasing Payroll Taxes. One of the easiest ways to raise revenues to counter future Social Security budgetary shortfalls will be to raise payroll taxes.

7. Benefit Reductions. Some proposals call for a reduction of Social Security benefits across the board in order to maintain the fiscal health of the system.

8. Social Security Coverage of AD New Workers Hired by State and Local Governments. Some time ago, states and localities were able to choose to remain outside of social security coverage, and some have continued to do so. One proposal that has been introduced to address the fiscal health of social security is to expand coverage by including all new workers hired by state and local governments.

9. Use of General Revenues to Support Social Security. Some proposals call for using federal government surplus or general revenues to provide support for social security.

For further information, contact:

Institute on Hunger and Poverty Policy
The National Hispanic Council on Aging 2713 Ontario Rd., NW
Washington, DC 20009
Phone (202) 265- 1288
Fax: (202) 7452522
E-mail: nhcoa@ worldnet.att.net.

Marta Sotomayor, Ph.D.



NATIONAL SILVER HAIRIED CONGRESS

STATEMENT FOR THE WHITE HOUSE CONFERENCE ON SOCIAL SECURITY

The National Silver Haired Congress, a national grassroots organization of registered voters over 60, held its inaugural session in Washington, DC in 1997. At both its inaugural and second sessions, preserving Social Security was voted in as a top priority of this group. Specifically, the National Silver Haired Congress has called for the following actions:

- 1) Congress oppose all types of privatization of Social Security including individual accounts and investment of Social Security trust funds in other than government securities. Privatization makes insufficient "safety net" provisions for all beneficiaries that Social Security helps support.
- 2) Congress repeal the offsets and penalties which **tenD** to restrict the earned benefits promised to vested workers under the Social Security program.
- 3) Congress extend the inflation indexing to the Earnings Threshold Levels of the means test in the same manner that it does for other income tax items and end this form of discrimination against the elderly and disabled.
- 4) Congress raise the cap on income subject to Social Security tax by \$5,000 per year until it reaches \$200,000 and that additional bend points, as appropriate, be utilized in the computation of Social Security benefits.
- 5) Local and state governments be prohibited from designing and implementing alternative plans to Social Security and new employees to such governments be grandfathered into the Social Security program, thereby, increasing participation in the program.
- 6) When each spouse of a marriage is entitled to Social Security payments based on his/her own earnings, the widowed spouse be entitled to 50% of the Social Security payments of the deceased spouse also, with 50% retained by Social Security.

Finally, and most importantly, I would like to strongly emphasize the urgent need to **PERMANENTLY REMOVE THE SOCIAL SECURITY TRUST FUND FROM THE GENERAL FUND AND DO SO IN SUCH A MANNER THAT PREVENTS CONGRESS AND THE ADMINISTRATION FROM USING THE SOCIAL SECURITY TRUST FUND FOR ANY OTHER PURPOSE.**

The National Silver Haired Congress is pleased to be part of the White House Conference on Social Security.

Submitted by **Bea** Bacon, Chairman
December 3, 1998



National Senior Citizens Law Center

1101 14th Street, NW, Suite 400 • Washington, DC 20005 • (202) 289-6976 • FAX (202) 289-7224 • <http://www.nsclc.org>

Burton D. Fretz
Executive Director
Washington, DC

Gerald McIntyre
Directing Attorney
Los Angeles, CA

WHITE HOUSE CONFERENCE ON SOCIAL SECURITY December 8, 1998

The Law Center advocates for the elderly poor, including low income retirees, minimum wage earners, women, minorities, and people with disabilities. Protecting the Social Security system is vital to their security.

SOCIAL SECURITY CAN BE PROTECTED WITHOUT RADICAL CHANGES.

In reality, no Social Security “crisis” exists. The system can pay full benefits through year 2032 and at least 75 % of benefits thereafter. Modest adjustments today can eliminate any gap after 2032 and will not **raise the tax rate, cut benefits or restrict eligibility**:

****** Lifting the yearly cap on the payroll tax (FICA), now at \$68,400 annually, will replace the current regressive structure and will eliminate about half the gap. At a minimum, the cap should be raised to \$100,000, which will fill about 30% of the gap and restore the FICA tax to 90 % of the national wage base, its historic level.

****** Extending Social Security coverage to state and local employees will eliminate about 12% of the 75-year gap.

****** Taxing Social Security benefits like private pensions, and phasing out the existing exemption thresholds, will fill about 19% of the gap.

****** Investing up to 40% of the Trust Funds in stocks, reaching 40% in 2015, will eliminate nearly 50% of the benefit gap.

CERTAIN PROPOSALS WOULD HARM LOW INCOME PEOPLE.

-- Converting Social Security into private individual accounts would expose workers to extraordinary risk. People who invest unwisely, too conservatively, or just unluckily will face insecurity in old age. A whole generation of retirees will meet this fate if their peak investment years occur during a prolonged market slump, like that occurring from 1962 to 1982. To force people to gamble their retirement income in the marketplace turns Social Security on its head.

-- Raising the age of eligibility for retirement benefits is especially harsh. Many older people work past age 65 from economic necessity. Others suffer the disabilities of age and cannot work. Still others are forced into early retirement and cannot find replacement jobs. To finance Social Security on the backs of the elderly would be cruel and unnecessary.

-- Increasing benefit computation years from 35 to 38 would lower benefits for many women and marginal workers by adding years of no or low wages to the calculation.

These options would hurt the most vulnerable individuals which the program now protects.

Los Angeles Office: 2639 S. La Cienega Blvd. • Los Angeles, CA 90034 • (3 10) 204-60 15 • FAX (3 10) 204-0891



November 30, 1998

The National Treasury Employees Union (NTEU) represents more than 150,000 federal employees and their families with a substantial stake in the future of the Social Security system. We are pleased to be part of the debate on the future of the program and look forward to a continuing dialogue with the White House.

The goal of this ongoing debate must be to both strengthen and protect Social Security for future generations. NTEU is concerned about proposals that promote privatization of the Social Security system. Replacing the current system in whole or in part with one that emphasizes privately invested individual accounts injects an element of risk into the future of Social Security for federal employees and their families. NTEU believes there are better, less volatile approaches to strengthening Social Security and ensuring that it will continue to be available for all Americans.

There are two particular Social Security issues of vital importance to federal employees and retirees, application of the Government Pension Offset (GPO) and the Windfall Elimination Provision (WEP) to annuities received by federal employees. These retirement security issues deserve to be addressed during the Social Security debate expected to get underway during the 106th Congress.

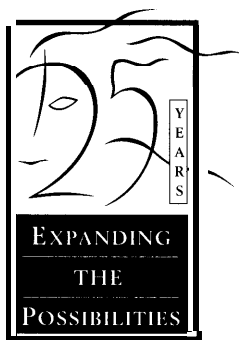
The GPO penalizes many recipients of government pensions who are also eligible for Social Security based on a spouse's work record. It reduces the Social Security spouse's or widow's benefit by two-thirds of the amount of the Civil Service Retirement System (CSRS) pension. The effects of this offset are particularly devastating to female federal employees who are often eligible for only meager federal pensions as a result of either interruptions in their careers while raising their families, or working in lower graded positions for most of their careers.

For example, if an elderly widow is eligible for a federal pension of \$600 per month, two-thirds of that amount, or \$400 must be offset against the Social Security spouse's or widow's benefit to which she may also be entitled. If she is eligible for a \$400 Social Security benefit based on her husband's work record, the GPO results in her receiving none of the Social Security benefit her husband earned. This is not an isolated example.

Similarly, the WEP unfairly reduces the pension income of many federal retirees by reducing their own earned Social Security benefit by as much as 50%. A federal employee eligible for both Social Security and a pension from work not covered by Social Security will have a lower benefit formula applied when calculating his or her Social Security unless that individual has at least 30 years of Social Security coverage.

A widow who may have worked ten years under CSRS and ten years in the private sector could find her widow's Social Security benefit offset by the GPO and her own, earned, Social Security benefit offset by the WEP. It seems unlikely that Congress intended to penalize individuals in these situations in such a harsh manner and NTEU is hopeful that inequities such as these will be part of the discussion that begins with your White House Conference on Social Security.

NATIONAL WOMEN'S LAW CENTER



INDIVIDUAL ACCOUNT PROPOSALS THREATEN SOCIAL SECURITY'S ESSENTIAL PROTECTIONS FOR WOMEN AND THEIR FAMILIES

For over 60 years, Social Security has increased the economic security of all Americans -- but its guaranteed benefits and family protections are especially important to women. Women represent 60% of elderly Social Security recipients, and women depend more on Social Security benefits than do men. Social Security provides more than half of the income of elderly women living alone, and is the only source of income for 25% of such women. Elderly women still have a poverty rate that is nearly twice as high as that of elderly men (13.1% versus 7%). But without Social Security, more than half of all elderly women would be poor.

The Social Security system is not in crisis now. It can pay benefits at current levels for more than 30 years. However, by 2032 the surplus in the Trust Fund is expected to be gone, and payroll taxes will be insufficient to maintain benefits. To ensure adequate benefits for future generations of women, Social Security needs to be strengthened by reforms that close the financing gap and improve the economic security of women and their families. Unfortunately, the debate over ways to reform Social Security seems to be focusing on proposals to replace Social Security, in whole or part, with individual accounts which pose serious risks for women. For that reason, this brief statement focuses on the problems inherent in individual accounts.

- ▶ **Individual accounts, which lack Social Security's progressive benefit structure and spousal benefits, would disadvantage women who work for lower pay and take time out of the labor force to care for children and family.**

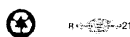
Social Security is a social insurance program designed to provide meaningful retirement benefits to all workers and their families. Social Security's benefit formula is progressive: those who have worked for low wages throughout their lifetime receive retirement benefits that are a larger percentage of their lifetime earnings. And Social Security guarantees benefits to spouses, divorced spouses, and surviving spouses: a vital protection for women who spend time out of the labor force to care for children and other family members.

Although women are working more and earning more than in the past, their lower earnings relative to men's will persist. The wage gap has narrowed, but not disappeared. And women are still more likely than men to spend time out of the labor force or working part-time. Today, 63% of women receive benefits based on their husbands' earning history, because the spousal benefit (50% of the husbands' benefit) exceeds the worker benefit based on their own earnings history. The percentage of women relying on spousal benefits is expected to decline, but will remain high well into the 21st century; in 2060, 40% of women are projected to receive benefits as spouses rather than workers.

In contrast to Social Security, benefits from individual accounts are directly related to the size of the individual's contribution and the return on investment. Protections for low earners could be

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devised; however, they would be more politically vulnerable than Social Security's integrated, progressive, social insurance approach. And it is unclear in several of the proposals for individual accounts whether protections for spouses, divorced spouses, and surviving spouses would be required -- and if so, how substantial they would be. About 20% of elderly widowed and divorced women are currently poor; they cannot afford a loss of benefits.

- ▶ **Protection equal to Social Security's guaranteed, inflation-protected, lifetime retirement benefits would be difficult, if not impossible, for women to secure through individual accounts.**

Social Security provides workers and their surviving spouses with benefits that are guaranteed for life and adjusted for inflation. These protections are especially important to women. Women live longer than men; over 70% of Americans age 85 and older are women. Women are thus at greater risk of outliving their savings, and of seeing other sources of income decline in value due to inflation. And women generally have lower savings than men, and are less likely to have pension income.

Individual savings and investments are an important supplement to Social Security. But to the extent individual accounts substitute for guaranteed Social Security benefits, they put women's economic security at risk. To minimize the risk of losing their investments, women may choose to invest their smaller individual accounts conservatively; studies indicate that women currently invest more conservatively than men. But women then run the risk that their assets will not grow sufficiently to last through their lifetime, or even keep up with inflation.

Women will be especially hard pressed to obtain through the market the lifetime protection that Social Security provides. Lifetime annuities can be purchased. But converting to an annuity-- which is done all at once -- makes a woman's lifetime retirement benefits extremely sensitive to the state of the stock market at the time of the conversion. In addition, the costs of converting savings to an annuity are high. Economist Henry Aaron estimates that overall, 30 to 50% of the savings in an IRA or 401 (k) individual account converted to an annuity are lost to administrative and management fees and the cost of conversion. Few private annuities are indexed for inflation. And most private annuities -- unlike Social Security -- base monthly payments on gender, providing women with lower lifetime benefits for the same investment.

- ▶ **Replacing Social Security with private accounts jeopardizes disability and survivors' benefits for workers and their families.**

Social Security is not just a retirement program. It provides benefits for disabled workers, 40% of whom are women. And Social Security provides for the families of workers who become disabled or die. Nearly 4 million children receive Social Security survivors or disability benefits -- and 98% of the parents who receive benefits for caring for them are women. Individual accounts are designed to provide for retirement only. The savings in individual accounts will not protect families that must cope with a wage earner's disability or early death.

STATEMENT BY BONNIE O'DAY, PH.D.

The solvency of the Social Security Trust Fund is a matter of critical importance to Americans with Disabilities. The Supplemental Security Income (SSI) and Social Security Disability Insurance (SSDI) programs provide an important safety net for the 9 million individuals deemed by SSA to be unable to work. These individuals and their advocates must be an integral part of the current Social Security debate.

SSI and SSDI beneficiaries must meet and document rigorous disability criteria to establish their eligibility for these programs. However, employment could be a realistic option for many of these individuals if they receive education or training, adaptive equipment, health care, and other support services. If only one-half of one percent of current SSI and SSDI beneficiaries went to work, the Social Security Trust Fund would save \$3,500,000,000 over the worklife of these individuals. Providing reforms to enable some beneficiaries the opportunity to return to work is imperative for the solvency of the Trust Fund.

Several "work incentive" provisions have been added to the SSI and SSDI programs during the last twenty years, but they are extremely complex, difficult to use, and burdensome to both the Administration and the recipient. SSI recipients can retain \$1 of their benefits for every \$2 of earnings, deduct impairment related work expenses, and retain Medicaid benefits after earnings become too high to allow SSI cash payments. (Earnings limits are established by each state.) SSDI work incentives include a one-year trial work period; 36 months of extended eligibility for Medicare benefits, a Medicare buy-in program, and deduction of work expenses.

But evidence suggests that these work incentives are not well used. The General Accounting Office (GAO) found that about eight percent of SST recipients and one percent of SSDI beneficiaries aged 18 to 64 reported any earnings. Another 1991 study of about 4,400 SSDI beneficiaries found that between 10 and 20 percent knew anything about work incentives under the SSDI program, and almost no one said they were influenced to return to work by these provisions (Hennessey & Mueller, 1994).

Many people with disabilities find that it just doesn't pay to work. SSDI beneficiaries face a \$500 earnings "cliff" (\$1,050 for blind individuals) that presents a significant impediment to employment. An individual who earns over \$500 per month (minus any impairment-related work expenses) will lose their entire SSDI check. This means that an SSDI beneficiary must find a job that pays about \$20,000 per year and provides medical benefits, and a blind person must make about \$25,000 per year, to profit by earning over the SGA level. The sensible course of action for most people is to remain unemployed, or to keep earnings low enough to retain cash payments. Based upon public hearing testimony, the National Council on Disability (1997) reports that SSDI beneficiaries turn down promotions, refuse increases in hours or overtime, or actually reduce their hours when their wages rise to keep their SSDI benefits.

Mailing Address
102 Irving Street, NW
Washington, DC 200102949

Street Address
1016 16th Street, N.W.
Fourth Floor
Washington D.C. 20036
(202)466-1900

Fax (202) 466-1911

Access to medical coverage is also critical for SSI and SSDI beneficiaries to become employed in larger numbers. The gateway to full medical coverage, including durable medical equipment, personal assistance and prescription drugs, is eligibility for SSI benefits. The entanglement of income and medical benefits results in the potential loss of medical coverage when earnings rise and cash benefits are eliminated upon return to work. A Harris Survey of Americans With Disabilities conducted in 1994 found that 31 percent of those who are unemployed find loss of health insurance or long-term services to be a work barrier. Ironically, the services and supports that enable an individual to live independently in the community and to sustain employment may be lost if he or she successfully finds a job. Part-time work that is becoming increasingly available and is well suited to people with some disabilities may not be an option due to lack of health care coverage. If health care is covered by the employer, in-home assistance, prescriptions, and adaptive equipment may not be covered, or may not be sufficient to meet the individual's needs. It therefore makes sense for SSI recipients and SSDI beneficiaries to refrain from or restrict employment to maintain publicly funded medical benefits.

Recommendations:

1. Enhance SSDI work incentives by offering a \$2 for \$1 income offset, similar to that offered to SSI recipients, for beneficiaries who earn over \$500 per month. This provides a gradual ramp, rather than a sudden drop, off the SSDI program and enables beneficiaries to profit by working.
2. Simplify and enhance SSI work incentive provisions by allowing SSI recipients to keep the first \$500 (rather than the current \$65) of earned income. After this level of income has been attained, the current two-for-one offset would be instituted, but altered to be collectable quarterly rather than monthly, in \$50 rather than \$1 increments. This would simplify work incentive programs and decrease paperwork requirements by replacing current deductions for work expenses and other more complex work incentive provisions.
3. Institute a Medicaid buy-in for SSI and SSDI beneficiaries who return to work, thus allowing people to purchase health care coverage.
4. Contract with non-profit agencies to promote employment and to inform beneficiaries about work incentives.



The Social Security Reform Challenge: maintain the safety net, increase savings, bolster returns

By Ronald P. O'Hanley
President, Dreyfus Institutional Investors

Developing consensus for Social Security reform is arguably the most important and challenging domestic agenda item facing President Clinton and Congress today. Yet it is interesting that a child born this morning could grow up and attend college before the current pay-as-you-go Social Security program runs into financial difficulty. Our leaders deserve credit for having the foresight to address this issue today in a proactive manner. It is not often that we are able to build political momentum for major initiatives without an immediate crisis before us.

The Social Security Act signed by President Franklin D. Roosevelt on August 14, 1935 is perhaps the most important and enduring program ever enacted by our government. Every President and Congress since then has preserved this economic safety net. On several occasions during the past six decades, Social Security has been modified to meet new challenges and accommodate new demands along the way. Our elected officials, for example, passed what were seen as "landmark" amendments 15 years ago when political leaders as ideologically opposed as President Ronald Reagan and House Speaker Thomas "Tip" O'Neill worked to forge consensus on solutions at the time.

Faced with the widely documented demographic challenges posed by the large population of baby boomers approaching retirement and people living longer, we must once again modify the program. While there is already no shortage of good proposals, it will take time to develop a consensus for reform. There are, however, plenty of facts that will help guide us as we develop solutions.

Social Security replaces only about 40 percent of the average worker's pre-retirement earnings, according to the Social Security Administration, and yet it is the major source of income for two-thirds of elderly recipients and essentially the *only* source of income for the rest of the retirees. The government also says that while 11 percent of senior citizens in America live in poverty (sadly), the figure would be nearly 50 percent without Social Security. Finally, while 70 percent of Social Security beneficiaries are retirees, 30 percent--or 13 million of our fellow citizens--are receiving necessary benefits as survivors (widows and orphans) or because they are disabled.

Given these facts, a few things seem clear:

1. The safety net aspect of the Social Security system must be maintained. The program is key to the social well being of a substantial segment of our citizenry. Therefore, key elements of the current system--such as mandatory participation and the principle of a minimum level of guaranteed income--must remain intact.

2. Reform should include initiatives to increase savings levels and participation in private pension schemes. The fact that Social Security benefits alone will not suffice to maintain a retiree's minimum standard of living underscores the importance of creating new incentives to increase personal savings. Experts say that we need 70 percent of our pre-retirement income to maintain our lifestyle when we leave the workforce. Social Security, as you know, has long been viewed in America as only one part of a "three-legged stool" for retirement security. It was meant to be a guaranteed leg, while personal savings and private pensions comprised the other two. However, traditional pensions are becoming less common and less assured for today's workers--especially those in their 20s and 30s who will be employed by many different organizations during their careers.

This puts more of the burden on personal saving, yet Americans are saving less than 4 percent of their income today, half the rate only two decades ago. While the rest of the world admires our economic prowess, many countries have managed to significantly outpace us as savers in recent years. Boosting our low savings rate also would have positive implications for future prosperity through productive capital formation. Increased savings makes more funds available for investment, resulting over time in higher standards of living and productivity.

3. Improving investment returns is vital to reforming Social Security. We must take steps to broaden the asset allocation mix of the Social Security trust fund investments to reflect the liabilities of the system. Whether it is through individual accounts in which employees invest a portion of Social Security funds on their own or as a collective trust, it is essential that we strengthen returns. This requires investment in stocks and bonds in addition to Treasury obligations.

We all know the risks involved in stocks, as evidenced by this year's market volatility. But we also know the long-term track record of a diversified pool that includes equity investments when compared to other investments. U.S. corporate competitiveness and profitability has been driven in no small part by equity investments in pension plans that have reduced the need for corporate funding of these plans. Millions of average-income Americans have created significant wealth during the past several years by investing in the stock market through their 401(k)s alone. Why not the same for our Social Security funds?

So today, the President and Congress have an opportunity to develop a blueprint to preserve Social Security--and the intergenerational bond that our country has cemented to provide for our elders and those among us who have fallen on hard times. This republic has met every major challenge for 222 years--and we will surely do so again on the issue of Social Security.

Individual Accounts: Lessons from the UK Experience
Dr. J. Michael Orszag¹

The role of individual accounts in Social Security reform is perhaps the most contentious issue to be debated at this conference. The UK experience may help inform the discussion. In 1988, the UK took the groundbreaking step of allowing individuals to contract out of the earnings-related portion of the state pension (SERPS) by opening up personal accounts (Appropriate Personal Pensions). Since Britain is the only major industrialized country to experiment with these accounts, its experience provides a unique laboratory in which to investigate both the opportunities and problems of a switch to such accounts.

In terms of opportunities, establishment of personal accounts in the UK has had important incentive effects.² But the UK experience has also indicated a number of practical problems for policy design. In particular, the administrative costs of running individual accounts have proven to be surprisingly high, and misleading sales practices have produced a \$15 billion scandal.

To evaluate administrative charges in the UK, it is useful to **define the charge ratio**, a measure of how much of a pension's value is dissipated due to administrative charges and other costs. In particular:

$$\text{Charge Ratio} = 1 - \frac{\text{Pension w/ Charges}}{\text{Pension w/ No Charges}}$$

The closer the charge ratio is to zero, the lower the costs. The charge ratio can be decomposed into three components, corresponding to losses upon retirement (annuitization), losses **from** building upon funds before retirement assuming no switching among funds (accumulation), and losses from switching among funds before retirement (transfer):

1. **The annuity ratio** reflects the losses from annuitizing an account at retirement. It measures the ratio of private annuity yields to theoretical yields from population mortality tables, and captures both adverse selection and cost loadings on private annuities.
2. The **accumulation ratio** captures fund management and administrative costs during the accumulation stage of a worker's career. It assumes that individuals do not switch funds during their careers.
3. **The transfer ratio** measures the costs from switching funds during a worker's career. It is computed as the ratio of the amount received at retirement by an individual switching funds a typical number of times to the amount that would have been received at retirement by the same individual if he/she had not switched funds at all.

When there is no lump sum pension payment, these ratios enter multiplicatively:

$$\frac{\text{Pension w/Charges}}{\text{Pension w/ No Charges}} = \text{Annuity Ratio} \times \text{Accumulation Ratio} \times \text{Transfer Ratio}$$

In combination, these three sources of costs are substantial. Reasonable figures for the UK are an accumulation ratio of roughly 75% (consistent with a 9% equity yield, a 50 basis point fund

¹**Address:** Department of Economics, Birkbeck College, University of London, 7- 15 Gresse St, London W 1 P 2LL, UK.
Phone: +44-171-63 1-6427, Fax: +44-171-63 1-6416, **Email:** jmo@ricardo.econ.bbk.ac.uk.

² Stefan Folster, Social Insurance Based on Personal Savings Accounts; J.M. Orszag and Dennis Snower, Expanding the Welfare System: A Proposal for Reform in *European Economy*, 1997, 4.

management charge, and a 5 percent annual fee), an annuity ratio of **85%**, and a transfer-ratio of 70%. The total charge ratio is therefore $1 - 0.75 \times 0.85 \times 0.70 = 0.55$, so that 45% of the pension is lost in charges. In other words, the value of a private account in the UK is cut roughly in half by administrative and other costs.

These high costs are not just hypothetical figures. We have calculated the three component ratios for the UK, using data back to 1988 (when personal pensions were introduced):

- Accumulation ratio. Data from *Money Management* surveys indicate an implied accumulation ratio for a typical worker who works 40 years of about 75% in 1997.
- Annuity ratio. For annuities, adverse selection and cost loadings amount to roughly 10- 15% of a pension's value. The annuity ratio is thus roughly **85%**.³
- Transfer ratio. The transfer ratio has improved considerably in the UK, but remains relatively low. *The Money Management* surveys imply that the ratio for one transfer after 5 years has risen from 79% in 1994 to 89% in 1998. But even in 1996, over a quarter of the market had five-year transfer ratios below **80%**.⁴

Two other aspects of the UK experience are worth noting:

- Providers have not left the market. 'The number of pension providers in the UK has not changed much over time: in 1992 there were 90 unitised personal pension plans, whereas in 1998 this number was **91**.⁵
- New disclosure rules have not significantly affected average charge ratios. In 1995, the UK government introduced strict disclosure rules for personal pension costs. These rules have had surprisingly little effect on the average charge ratio, but they do seem to have reduced the *variance* in charges across providers (which declined by 25% between 1994 and 1997).

In summary, the UK experience provides a number of useful policy lessons for the US debate.⁶ First, administrative costs are a substantial issue with private pensions, both because of charges during the accumulation and because of reductions in yield during the annuitization stage. Second, free competition over more than 10 years has not resulted in a substantial reduction in providers - the mutual structure of the industry has perhaps impeded mergers which might have exploited economies of scale to bring costs down further. Third, disclosure has had important effects in reducing the variance of charges across providers.

³ The actual profit loadings on annuities are quite small, and in fact *ex post* profits recently are negative due to better than expected male longevity.

⁴ These hidden charges are particularly confusing to consumers, because most providers claim they have no charges for transfer values. This is misleading because most providers front load their annual charges, hence imposing hidden charges on those who do not hold their accounts with the same provider for a long period of time; the difference between a fund with level charges and one that is front-loaded is captured by our transfer ratio. Such front-loading is quite significant: even in 1998, the market average ratio of one year transfer values to a fund with no charges was only 53%.

⁵ Some uncompetitive life offices have shut down their pensions operations and have been replaced with nontraditional direct channel providers such as Virgin Direct, Marks & Spencer and supermarkets. But competition in the market remains strong, as evidenced by Fidelity's decision to withdraw from the personal pensions market in 1993.

⁶ A more detailed investigation of UK pensions and annuities costs is currently the subject of a detailed panel data study conducted under the auspices of the World Bank by Dr. Mamta Murthi (Cambridge University), myself, and Dr. Peter Orszag (Sebago Associates, Inc.). The study is correlating charges with pension and annuity plan details and insurance accounting data, to examine in more detail the *causes* of relatively high costs. The study is also comparing personal pension and employer-provided pension costs, as well as examining annuity prices and cost loadings over time.



OWL is the only national grassroots membership organization to focus solely on issues unique to women as they age. OWL believes in keeping Social Security solvent. We welcome this discussion of a full range of options to strengthen Social Security because it is the foundation of women's retirement security.

Any effort to strengthen Social Security must be analyzed for its impact on women. If Social Security works well for women, providing them with adequate and guaranteed benefits, it will work for everybody. Because of their work and life patterns, women rely on Social Security for a greater share of their retirement income than men. Until the structural barriers that prohibit women from achieving retirement income parity with men are removed, we must maintain and strengthen the core of most women's retirement income, Social Security.

Women have a unique stake in this debate:

- **At age 65, women comprise 60 percent of all Social Security beneficiaries, but by age 85, they are 72 percent of all recipients.** The fastest growing cohort of population is women over the age of 85.
- **Women earn, on average, only 74 percent of what men do.** That means, for an average-waged job, they have \$250,000 less in lifetime earnings at retirement than their male counterparts. They are almost twice as likely to be living in poverty as older men. Social Security represents 90 percent of income for 27 percent of older women; for 20 percent Social Security is their sole source of income.
- **The average woman spends a median 11.5 years out of the workforce, usually caregiving for children, elderly family members, or ailing spouses.** Those are years she is not paying in to Social Security, vesting in a pension, or saving in any other way for her retirement. Women are being punished in retirement for taking responsibility for their families during their prime earning years. The flexible work that allows women to be caregivers is usually low-waged, with few benefits, and because they stay in jobs an average of 3.5 years, it is difficult for them to vest in pensions, as most plans vest only after five years. Only 14 percent of women over 65 receive any income from pensions.
- **Women live an average of six years longer than men.** Life expectancy at age 65 is currently 19.2 years for women compared to 15.6 years for men. Women have smaller retirement incomes which must last for a longer period of time. Women are three times more likely to be widowed than men. Four out of five women in the 85 plus age group are widowed. As widows women are five times more likely to be poor than women who are in couple.

OWL's principles for assessing any proposed Social Security reform to insure that it will work for women are:

1. **Social Security must remain an earned right.** Social Security is an integral component of the social insurance compact that America has made with its citizens, and must always provide equitable coverage for those who have paid for it.
2. **Social Security should be an equitable program.** Women, people with disabilities, racial and ethnic minorities, low and moderate income working people, and families must all be treated in way that will provide fair and equal outcomes today and in the future.
3. **Social Security should be genuinely gender-neutral in its outcomes.** The specific inequities faced by women, caused by their traditional employment histories and life patterns, must be specifically addressed so that women of future generations will, when they retire, receive all the benefits to which they are entitled.
4. **Social Security should provide adequacy-maintaining benefit levels for all recipients.** Any proposed benefit cuts implemented in efforts to maintain the program's solvency would disproportionately harm women and minorities; temporary, seasonal and part time workers; and the chronically under- and unemployed.
5. **All existing and new revenue sources must be explored before any changes in Social Security's structure are undertaken to assure its future solvency.** Modification of existing program fundamentals, such as the calculations of cost-of-living increases through the Consumer Price Index, changes in the retirement age, and raising the floor for the taxation of benefits; as well as ideas such as income caps, earnings sharing, taxation of unearned income, shifts in the allocation of spousal and survivor benefits, and the use of general revenues, must be carefully analyzed for their consequences for women, and their distributional impact generally, before any radical changes that could destroy the foundation of the program are proposed.
6. **Social Security must keep Americans secure. No changes should affect current recipients.** There should be no ex post facto effects of legislation on current recipients.
7. **Major changes in Social Security must not be made in isolation.** Any changes in benefits and/or revenues must be considered in the context of projected changes in Medicare, Medicaid, private retirement benefits and other aspects of the government's social insurance programs that have a profound impact on women's lives.
8. **Information on the impact of Social Security reform must be provided to the public by the Social Security Administration. Adequate funding should be provided for comprehensive public education about Social Security and any changes being proposed.** The distributional and other effects of structural reform and other proposed policy options for Social Security and other programs administered by the Social Security Administration must be analyzed and made publicly available.



VIEWPOINT ON SOCIAL SECURITY REFORM
DECEMBER 3, 1998

Parents, Families and Friends of Lesbians and Gays (PFLAG) is a national, family-oriented organization which has over 425 chapters in the United States. We represent over 70,000 members, donors and supporters. We are a non-profit, charitable and educational organization which traces its beginnings back some 25 years.

PFLAG exists in order to promote the health and well-being of gay, lesbian, bisexual and transgendered persons and their families and friends. These family members and friends have the same needs as the rest of our family members and friends. These include the needs provided for through social security -- primarily retirement, death, and disability benefits.

We who are members of PFLAG have family members and friends who are in lifetime, committed relationships. Our heterosexual members can get married and be entitled to benefits through that marital relationship. The social security benefits we enjoy through our husbands or wives provide a safety net. Where one of us has sacrificed paid employment for the sake of raising a child or in some other way providing a family benefit (by, for instance, caring for an elderly and infirm relative), we know that our social security benefits are not limited to the years we worked outside the home. Society receives a benefit from this as well, as it allows for unpaid care for those in our society who cannot care for themselves.

Those of us, however, whose lifetime commitment is to someone of the same gender, do not have access to that safety net. Social security will not provide benefits to my gay son's partner in the same way it will provide benefits to my non-gay son's wife. As a couple, my gay son and his partner will not be able to make the same choices as his brother and sister-in-law -- at least not without more serious financial sacrifices. Our government -- to which both brothers contribute through their taxes and their productive employment -- is not treating the two of them equally.

Yet I know, from first-hand observation, that good, healthy same-gender relationships share the same admirable qualities and make the same contributions to our families, our communities and our country as good, healthy opposite-gender relationships.

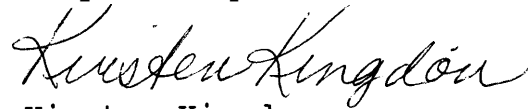
The core of family values is the ability to care for each other. I have seen and heard of extraordinary acts of caring by

same-gender couples. Parents, siblings, nieces and nephews, abandoned and rejected children have found good, nurturing homes with same-gender couples. Often the alternative would have been institutionalized care. We ought not discourage that kind of caring. On behalf of our families, our friends and all those **same-gender** couples without family support, we ask that the needs of same-gender couples, and those who depend on them, not be forgotten when final decisions are made on social security reform. Please ensure that same-gender couples will have access to the same benefits as married couples.

Social security is not just about retirement and death benefits, however. It also provides disability benefits. To those unable to work because of a disability, these benefits are critical.

All too many of our member families have had to bear the terrible burden of suffering and grief which is the hallmark of AIDS. It is important that comprehensive reform of Social Security is designed so that disability benefits are available to those with disabling diseases such as AIDS and that those benefits are designed in a way which recognizes the often-unpredictable course of the disease.

Respectfully Submitted,



Kirsten Kingdon
Executive Director

RUDOLPH G. PENNER
Senior Fellow
Arjay and Frances Miller Chair

Direct Dial: (202) 261-5212
Fax: (202) 728-0232

COMMENTS ON SOCIAL SECURITY REFORM FOR THE WHITE HOUSE CONFERENCE ON SOCIAL SECURITY*

It is urgent that we reform Social Security and Medicare. Long-term projections by the General Accounting Office and the Congressional Budget Office suggest the possibility of a declining economy if literally nothing is done. Although Social Security poses a lesser economic problem than Medicare, it may be easier to reform, both technically and politically.

Social Security may be the most popular government program ever invented. It has greatly reduced poverty among the elderly and it has paid a very high rate of return on the payroll tax payments of past retirees.

Unfortunately, the glory days of Social Security are over. As a pay-as-you-go system, it can only pay a high rate of return to the extent that each successive cohort of workers pay more into the system than previous cohorts. In the past, each successive cohort did pay considerably more, because the size of the labor force was growing, real wages were increasing, and the average payroll tax rate was continually increased. Until recently, the most important contributor to the high rate of return was a continually increasing tax burden, as each successive generation of retirees enjoyed benefits financed by taxes on workers that were much higher than the retirees had faced during their own working lives.

It is implausible to think that we can continually increase future payroll tax burdens and there will be little growth in the labor force in the period 2010 to 2030. For both reasons, rates of return to future retirees will be very low, and without reform, the system is likely to lose political support in the very long run.

It is necessary to move from a pay-as-you-go to a funded retirement system to avoid this outcome. I believe that the safest way to accomplish this goal is through a system of mandated individual accounts that would complement a slimmed-down Social Security system.

Some worry that individual accounts will involve transaction costs that are too high and thus will greatly reduce the rates of return available to individuals. Even under the worst assumptions, the rates of return on individual accounts are likely to be higher for most than the rates provided by traditional Social Security. But if high transaction costs are a concern, the National Commission on Retirement Policy (NCRP), of which I was a part, has shown that transaction costs can be reduced to insignificant levels by having the information and collection process administered by the Social Security Administration and by limiting the number of investment options for the individual and the number of trades allowed each year.

Others worry that individual accounts impose too high a risk on investors. Data on IRAs and 401ks suggest that investors are quite modest in their risk taking, especially as they near retirement. If, however, risk is a major concern, plans by Senator Gramm and Martin Feldstein show that much of the risk can be left with the government by having traditional Social Security benefits make up for a part of any earnings disappointments from individual accounts. Alternatively, a minimum benefit can be guaranteed that is higher than the current minimum from Social Security. Although I prefer not to have the government left with a large, implied, contingent liability, I can see moving in this direction as a compromise. In any case, an approach that shares risk is much superior to plans that would have the trust fund invest in equities, in which case, the government bears the entire risk of market fluctuations.

There are many available options for reducing the future growth of Social Security benefits. One can do it through explicit reforms, such as increasing normal and early retirement ages, or one can, as in the Gramm/Feldstein proposal, reduce the Social Security benefit by an amount linked to the investor's success with his or her individual account. The latter guarantees that no one has to do worse than under the current Social Security system. That may give the plan a major political advantage, but it misses the opportunity to make the structure of Social Security more equitable and more conducive to encouraging later retirement.

One of the most prominent competitors with individual accounts is the notion that the trust fund should invest in equities. I find this approach highly troubling. It is scary to think of the political temptations posed by the government owning trillions of dollars of corporate equity. Proponents say that they will avoid this danger by organizing the management of this fund like the Federal Reserve System. That is not reassuring, since the Federal Reserve has been accused of bowing to political pressure in the past, most notably when Chairman Arthur Burns was rightly or wrongly accused of pumping up the money supply on behalf of Richard Nixon's re-election.

Proponents of equity investments by the trust fund also suggest that government can more easily spread risk among the generations. If so, this is also a characteristic of the Gramm/Feldstein approach which leaves much of the risk with the government. But there is absolutely no reason to believe that government would spread risk in an equitable manner. More likely, the strongest political incentive would be to distribute the benefits of positive market surprises immediately by raising benefits or cutting taxes while delaying the pain of negative surprises until future generations.

If we move to individual accounts, it is important to ask how they will be financed. Will the mandate be imposed on top of the current payroll tax system or will payroll or other taxes be cut to offset the pain imposed by mandates? The latter approach could be characterized as using the surplus to save Social Security. I would like to keep a significant budget surplus to supplement the deplorably low level of current private saving. However, this is likely to be an unrealistic goal given the long list of demands for tax cuts and spending increases lurking in the background. Using the surplus to facilitate individual accounts represents a much better use of the money than virtually all the other items on the list.

*The views expressed in this piece are those of the author and do not necessarily represent the views of the trustees and employees of the Urban Institute.

Clearing the Air of Fictions

Peter G. Peterson
Chairman

Each day Americans are becoming better versed in all the problems, from generational inequity to declining trust in government, that call for big changes in Social Security. Yet many defenders of the status quo still claim there's nothing wrong with Social Security that a few minor changes won't fix. Let's take their fictions from the top one more time.

Fiction: Social Security can pay all promised benefits until the year 2032. This most common of status-quoist fictions contains a kernel of fact: The Trustees now project that Social Security will be "solvent" until the year 2032—meaning that its trust funds will possess sufficient assets, and hence budget authority, to cover benefits until that date.

The problem is that the trust funds are a mere accounting device. Social Security's stored-up assets consist of nothing but a stack of Treasury IOUs that can only be redeemed if Congress raises taxes, cuts other spending, or borrows from the public. Thus, their existence doesn't ease the burden of paying out future benefits. What really matters is the program's operating balance—that is, the annual difference between its outlays and earmarked tax revenues. Social Security's current operating surplus is due to begin falling in 2002 and turn into an operating deficit in 2013. This deficit will widen to an annual cash shortfall of \$734 billion by 2031, the last full year the trust funds are projected to be "solvent."

Fiction: A 'mere' 2.2 percent of payroll tax hike would solve Social Security's fiscal problems. In theory, 2.2 percent of payroll is the amount that Congress would have to raise taxes or cut benefits, starting today, to bring the trust funds into balance over the next seventy-five years. Status quoists routinely trot out this number as evidence of how small the Social Security problem is. As economist Henry Aaron asks, how can anyone talk about a "crisis" that could be solved by a mere 2.2 percent of payroll tax hike?

Let us explain. The new assets that the trust funds would accumulate due to this tax hike would be no more real than the old assets. All the 2.2 percent solution would accomplish is to postpone Social Security's first operating deficit by seven years—from 2013 to 2020. After that, the trust funds would only remain solvent by cashing in an even larger mountain of paper IOUs.

Fiction: The economy is bound to grow faster than projected-erasing Social Security's deficit. A close reading of the official projections reveals a big disparity between historical rates of real GDP growth (2.6 percent annually since 1980) and the Trustees' long-term assumption (just 1.3 percent annually by the 2020s). With the current expansion still in high gear, some status quoists, including former Labor Secretary Robert Reich, conclude that there must be some kind of mistake. Suppose, they argue, that the economy keeps growing at its historical rate. Wouldn't this be enough to close Social Security's long-term deficit?

But the mistake is theirs, not the Trustees'. When the Trustees project that real GDP growth will eventually slow to 1.3 percent per year, they aren't assuming any decline in the

The Blackstone Group L.P.
345 Park Avenue
New York NY 10154
212 935 2626

growth rate of product per worker. The entire fall in GDP growth is due to the slowdown in workforce growth as Boomers retire—from 1.5 percent annually since 1980 to just 0.1 percent during the 2020s. The status quoists need to wake up to demographic reality. Maintaining America’s historical rate of GDP growth would require more than doubling productivity growth to 2.5 percent. As for erasing Social Security’s long-term deficit, it would require tripling productivity growth to 3.0 percent—a rate never before equaled over an entire business cycle.

Fiction: Social Security alone won’t endanger the economy. The rising total cost burden of just the major senior benefit programs—Social Security, both parts of Medicare, and Medicaid for the elderly—is projected to reach 35 percent of payroll by 2040. Clearly this is unsustainable. Yet many senior groups refuse to confront this cost in its totality. Instead, they argue that each program should be regarded as a separate “deal”—regardless of whatever else is going on fiscally and economically. From this perspective, Social Security is “affordable.”

This is like telling a homeowner that no single rock matters in the landslide that buries his family. Yes, the status quoists are right that Social Security is not growing as fast as Medicare or Medicaid. But it is the very intractability of health-care cost growth that makes achieving savings in Social Security so urgent. This point is lost on the status quoists, who apparently believe that future workers won’t mind paying a stupefying total tax burden so long as many different federal agencies are collecting and spending the money.

Fiction: The official projections are pessimistic. Another frequently heard claim is that the official cost projections are based on unduly pessimistic economic and demographic assumptions—and should therefore be regarded as a worst-case scenario. Columnist Robert Kuttner, for instance, calls the Trustees’ projections “too gloomy.”

The status quoists have it backwards. Far from being pessimistic, the Trustees’ “intermediate” scenario is based on assumptions that are surprisingly optimistic given the trends of the past twenty-five years. According to this scenario, productivity growth will speed up by 20 percent; growth in life expectancy at age sixty-five will slow by 60 percent (shorter life spans brighten Social Security’s fiscal outlook); and the annual growth in real per beneficiary health spending will slow from 5 percent to just 1 percent. What happens if the future is more like the past? Take a look at the Trustees’ “high-cost” scenario, in which Social Security faces a trust-fund deficit of 5.4 percent of payroll (not 2.2 percent)—and the total cost of the major senior benefit programs rises to 55 percent of payroll (not 35 percent).

Fiction: Even after paying for senior benefits, the next generation will still enjoy a rising living standard. Won’t the next generation be better off? And if so, won’t they be able to pay taxes at higher rates and still take home more income? Columnist Michael Kinsley writes of Social Security: “Even if it amounts to... an even larger transfer from future workers to future retirees, so what? The younger generation will still be richer than the older one, even after the transfer takes place.”

Let’s leave aside the principle implicit in this argument—that we have a right to cash out and pocket our children’s economic progress. The argument is factually incorrect if we take into account the total burden of young to old transfers. Raising taxes enough to pay for the growing cost of the major senior benefit programs would, under the Trustees’ official scenario, erase all growth in real after-tax worker earnings over the next half century. Under the high-cost scenario, earnings would suffer a large decline. It’s easy to say America would never allow this to happen. But that begs the question of how we will change course and when.

Chile's Social Security Lesson For The U.S.

by Jose Piñera

America's Social Security system will go bust in 20 13. As political leaders scramble to save it, they've overlooked an obvious free-market solution that works. They need only look at Chile.

Pay-as-you-go social security systems destroy the link between contributions and benefits, between effort and reward. Everyone tries to minimize what he puts into the system while trying to maximize through political pressure what he can get out of it. That's why pay-as-you-go plans are going bankrupt all over the world.

Chile faced that problem in the late 1970s. As secretary of labor and social security, I could have postponed the crisis by playing at the edges, increasing payroll taxes a little and slashing benefits a little. But instead of making some cosmetic adjustments, I decided to undertake a structural reform that would solve the problem once and for all.

We decided to save the idea of a retirement plan by basing it on a completely different concept -- one that links benefits and contributions. Chile allowed every worker to choose whether to stay in the state-run, pay-as-you-go social security system or to put the whole payroll tax into an individual retirement account. For the first time in history we have allowed the common worker to benefit from one of the most powerful forces on earth: compound interest.

Some 93% of Chilean workers chose the new system. They trust the private sector and prefer market risk to political risk. If you invest money in the market, it could go up or down. Over a 40-year period, though, a diversified portfolio will have very low risk and provide a positive rate of real return. But when the government runs the pension system, it can slash benefits at any time.

The Chilean system is run completely by private companies. We now have 12 mutual funds competing for workers' savings.

We guaranteed benefits for the elderly -- we told those people who had already retired that they had nothing to fear from this reform. We also told people entering the labor force for the first time that they had to go to the new system.

Today, all workers in Chile are capitalists, because their money is invested in the stock market. And they also understand that if government tomorrow were to create the conditions for inflation, they would be damaged because some of the money is also invested in bonds -- around 60%. So the whole working population of Chile has a vested interest in sound economic policies and a pro-market, pro-private-enterprise environment.

There have been enormous external benefits: the savings rate of Chile was 10% of gross national product traditionally. It has gone up to 27% of GNP. The payroll tax in Chile is zero. Of course we have an estate tax and an income tax, but not a payroll tax. With full employment and a 27% savings rate, the rate of growth of the Chilean economy has doubled.

That does not mean that we do not have any problems in Chile, but I believe that a society based on individual freedoms -- economic, social and political -- is a much more prosperous and lively society.

Could something like this be done in the U.S.? People have said it's utopian and that nobody in the establishment would support privatization, but I believe the situation is changing.

Recently, I was invited by Sen. Phil Gramm, R-Texas, to testify before the Senate Subcommittee on Securities. Basically, everyone agreed that a system like this is much more consistent with American values than a system created by a Prussian chancellor in the 19th century.

Of course, that does not mean that the reform will be done in the next month or the next year. I believe there's still a lot of education yet to go. But there's also a great opportunity here, and I think it's a very responsible thing to give your children and grandchildren.

Jose Piñera is Chile's former secretary of labor and social security and is co-chairman of the Cato Institute's Project on Social Security Privatization. (This article originally appeared in *Investor's Business Daily*.)



CENTER ON BUDGET AND POLICY PRIORITIES

**The Strengths of Social Security and
the Best Course of Action for Preserving this System**
Wendell Primus
Director of Income Security
The Center on Budget and Policy Priorities

Social Security has unquestionably been our nation's most successful social program. As such, great care must be taken to ensure that the achievements of this program are continued and any reforms taken to address the long-term actuarial imbalance do not undermine the strengths of this system.

The Success of Social Security. Social Security is largely responsible for the dramatic reduction in poverty among elderly people. Half of the population aged 65 and older would be poor if not for Social Security and other government programs. Social Security alone lifted 11.4 million seniors out of poverty in 1997, reducing the elderly poverty rate from about 48 percent to about 12 percent.

Social Security payments provide the majority of the income of poor and near poor elders. In 1995, Social Security payments constituted two-thirds of the total income of the elderly poor. Some 96 percent of seniors with incomes just above the poverty line received Social Security payments in 1994. This program is the major source of income for 66 percent of beneficiaries age 65 or older, and it contributes 90 percent or more of income for about 33 percent of these individuals.

Social Security is designed with protections that are especially important to low-income seniors. The benefit formula is progressive and provides low-wage workers with proportionally larger benefits in relation to their pre-retirement earnings. Additionally, benefits are automatically adjusted each year for inflation, which prevents erosion in the buying power of benefits.

Finally, Social Security is a comprehensive insurance system that provides important benefits in the event of death or disability. Approximately one third of all beneficiaries receive disability or survivors benefits. One in six people age 20 today will die before retirement and about three in ten will become disabled. Clearly, Social Security is an essential program for workers of all ages. Moreover, Social Security is essential to dependents of workers. The program is also responsible for removing 4.6 million nonelderly individuals, including one million children, from poverty in 1997.

Preserving Social Security for the Future. In light of the importance of Social Security to workers and their families, actions taken to address the long-term imbalance in Social Security must not undermine the achievements of the system. One option is to invest a portion of the trust funds in the private market through an independent governing board. This would increase the rate of return on this portion of the assets and make the treatment of Social Security assets comparable to the treatment of private pension funds. Furthermore, investing the trust funds would achieve the same rate of return as individual accounts without exposing workers to market risk or incurring the transition costs, annuity costs, or administrative costs of establishing 150 million individual accounts (see “The Shortcomings of Individual Accounts” by Kilolo Kijakazi of the Center on Budget and Policy Priorities). The investment decisions would be isolated from political influence by:

- appointing an independent governing board, set up like the Federal Reserve Board, to manage the funds;
- appointing an independent executive director of the board;
- selecting a portfolio manager through a competitive bidding process to invest the funds;
- requiring the portfolio manager to passively invest in broadly indexed funds with the level of investment set by statute; and
- prohibiting board members from voting stock.

The Social Security Administration actuaries estimate the long-term imbalance of 2.19 percent of payroll can be reduced to 0.97 percent of payroll if 50 percent of the trust funds is invested in equities.

The savings achieved by investing the trust funds in equities would lower the benefit reductions or tax increases needed to restore the long-term balance. Another option would be to measure price changes more accurately. Providing the Bureau of Labor Statistics (BLS) funds to update the market basket used in the Consumer Price Index (CPI) at least every five years and incorporating corrections to the CPI already announced by BLS will reduce the long-term deficit by about 0.45 percent of taxable payroll.

The remaining amount could be eliminated by modest increases in revenues or benefit reductions. Modest reductions in benefits on a prospective basis should be considered to close the gap. The most attractive revenue options are to increase the earnings base subject to taxation and to add all newly hired uncovered state and local employees to the Social Security system.

Conclusion. The strengths of the Social Security system can be preserved for future workers by investing the trust funds in the private market to increase the rate of return to assets without individual risk, transaction costs or administrative costs. Then modest program changes could be implemented to eliminate the remaining shortfall.



President
George J. Kourpias

Executive Director
Steve Protulis

National Council of Senior Citizens

8403 Colesville Road, Suite 1200 • Silver Spring, Maryland 20910-3314 • (301) 578-8800 • Fax (301) 578-8999

The Social Security Tax Cap Secret Steve Protulis, Executive Director National Council of Senior Citizens

Advocates of Social Security privatization are working hard to convince the American people that Social Security is in deep trouble, and that the only solution is to transform the current social insurance system into a privatized system based on hundreds of millions of individual stock market accounts.

What privatization proponents consistently fail to mention, however, are the dangers inherent to their proposed solutions and the enormous gains to be had by simply raising the Social Security tax cap.

The True Scope of the Problem

You wouldn't know it to listen to some pundits and politicians, but Social Security's problems are quite modest, if they exist at all. Current concerns over Social Security's long-term financing are based on the assumption that the U.S. Gross Domestic Product will average only 1.5 percent annual growth over the next 75 years. The problem is that the United States has never sustained such low GDP growth outside of the first four years of the Great Depression. To put it another way: the notion that Social Security is "going to go broke" around 2032 is based on the idea that the United States will suffer a decades-long economic depression!

In fact the U.S. economy is roaring along-an uncomfortable reality for privatization proponents-and one they largely ignore. If we assume that the U.S. economy will grow at only 2.5 percent per year (less than the 3.21 -percent GDP growth the U.S. has averaged over the last 50 years), Social Security will never go broke!

A Shrinking Problem

Earlier this year, the Bureau of Labor Statistics made technical (and therefore noncontroversial) adjustments to the Consumer Price Index used to calculate Social Security's annual Cost of Living Adjustment or COLA. The result of this change to the CPI formula is that early next year the Social Security Trustees will report that Social Security's long-term actuarial deficit is 18 percent less than it was just one year ago.

The Dangers of Privatization

Prudent Americans will argue that we should err on the side of caution and make whatever changes are necessary to prevent the remote possibility of a long-term shortfall in the Social Security Trust fund. We agree.

Long-term shortfalls, however, are normally traversed by making small steps, not taking giant leaps of faith such as those advocated by privatization proponents. In fact, radical privatization schemes carry enormous costs and substantial risks.

Perhaps the greatest risk is that scores of millions of gullible Americans will be lured into risky stock market ventures by the siren-song of unscrupulous Wall Street traders. While Wall Street dangles the lure of "minimum-wage millionaires" before a gullible public, the only guarantee they

offer is that they themselves will collect hefty management fees whether the market rises or falls. Those fees—estimated at \$240 billion over 12 years—provide ample motivation for Wall Street to fund organizations willing to flack privatization schemes.

Nor is privatization a free lunch. Because old Social Security obligations will have to be paid, even as new Social Security revenues are being diverted into private accounts, taxes will have to be increased by 3 percent of taxable payroll for 35 years in order to fund a transition to a privatized system. Ironically, this payroll tax increase is larger than that needed to satisfy the long-term Social Security shortfall we now have—estimated to be 2.19 percent of taxable payroll. In short, simply increasing Social Security payroll taxes 1.1 percent on both the employer's side and the employee's side is both less costly and less risky than privatization.

The Tax Cap Secret

There is a simple way to solve the so-called “Social Security crisis” that does not involve cutting benefits, spending trillions of dollars in transition costs, or asking 130 million Americans to speculate in the stock market. It involves raising the Social Security tax cap.

The secret of the rich and powerful is that most of them stop paying Social Security taxes before the end of the year. Under current law, all Social Security taxes for the year stop after an individual crosses the salary income threshold of \$68,400 (for 1998). No other tax stops altogether when you make more money—not even Medicare.

The result is that a worker earning \$35,000 a year pays Social Security taxes all year long while his boss—making \$140,000 a year—stops paying Social Security taxes by the first of July and gets a 6 percent raise for the rest of the year!

Opponents of raising the Social Security tax cap make three arguments. The first two are that it would be “unfair” to raise the cap without raising benefits, and that raising the Social Security tax cap would garner too much opposition in Congress.

Nonsense.

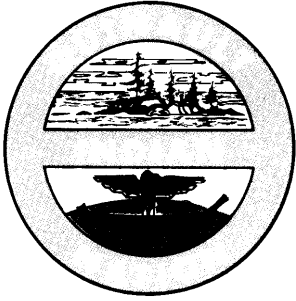
In 1993, the Medicare tax cap was completely eliminated without increasing benefits at all. Not only was the change politically palatable, it was accomplished with only the barest notice or comment! This is not to say that raising Social Security benefits for the well-to-do could not be accommodated in conjunction with elimination of the tax cap. In fact, such a compromise is possible by simply adjusting the current Social Security benefit formula.

The third argument—that raising the Social Security tax cap doesn't raise enough money—is perhaps the easiest to refute. The Social Security Administration calculates that if the Social Security tax cap were eliminated entirely (as was done for Medicare) **Social Security could remain solvent forever** after factoring in the changes to the CPI previously mentioned. If a more modest change was made, and the Social Security taxable base cap was removed on the employer's side alone, and the CPI changes were also made, almost 70 percent of Social Security's long-term actuarial deficit would disappear. . . . That is, if there is a deficit at all.

The Bottom Line

Ironically, as political momentum for a “tax cap solution” begins to gain momentum, the barons of Wall Street may decide there's no Social Security “crisis” after all. Wall Street is hoping to raise support for mandatory private investment in stock and bonds. The last thing Wall Street's wealthy want is to be asked to do their duty to keep the national social insurance system solvent.

In the Social Security debate, as in so many others, where you stand on the issue may depend on where you sit. And if the past is prologue, Wall Street's wealthy intend to sit on their wallet. It's a plan of attack the rest of us might do well to follow.



Quinault Indian Nation

POST OFFICE BOX 189 □ TAHOLAH, WASHINGTON 98587 □ TELEPHONE (360)276-8211

To: The White House Conference on Social Security
From: James DeLaCruz, Senior Program Manager, Quinault Indian Nation
National Congress of American Indian s Sub-Committee
Chair on Elders Issues

Date: 12/0 1/98

Re: Social Security

The following statement was submitted from the National Indian Council on Aging to the National Congress of American Indians Sub-Committee. This resolution was passed and approved.

SOCIAL SECURITY CONCERNS

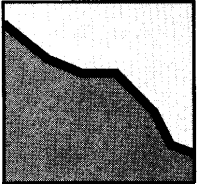
- Elders are concerned that the amount being earned by the Social Security Trust fund may not be as much as it could be and question whether the funds are being invested properly. Some elders want the government to take a “hands-off” policy with respect to the Social Security trust fund.
- Elders are concerned that if there is privatization of Social Security, will the Trust fund be depleted more rapidly?
- There is a need to establish Social Security officers on reservations to overcome language barriers and ensure that elders have improved access to services to which they are entitled.
- Direct deposit does not work for many Indian elders because of their lack of access to banking facilities.
- Elders state that all workers should participate in the Social Security system to ensure the original intent of the system.
- Some elders are concerned that they are being penalized for the benefits they receive from railroad pensions.



- Some elders are concerned that when they receive military pensions, there is a reduction to their Social Security benefits.
- Some elders are concerned about the limit they can contribute to 401 -K plans.
- Some elders question why their Social Security benefits are terminated because of earnings by their spouses.
- Some elders question why, when working in government civil service positions, they were not able to pay into Social Security and were hence not eligible for Social Security benefits.
- Elders want to know about the changes to Medicare and Medicaid.
- Elders do not want cuts to Medicare.
- Some elders are concerned that Social Security is going bankrupt.
- Elders expressed a need for education and information to help them choose between retirement plans.
- Elders need information on applying for HMO coverage.
- Elders wonder why they have had deductions for Medicare but do not receive benefits.
- Elders need information on investments for future generations since young people have lost faith in Social Security.

SOCIAL SECURITY RECOMMENDATIONS

- Advocate for establishment of Social Security offices on reservations to overcome language barriers and ensure that elders have improved access to services to which they are entitled.
- Through existing organizations in the community, conduct educational programs on Social Security and related issues to clarify eligibility and benefits and to improve access to qualified beneficiaries.
- Ensure that educational programs and Social Security offices are sensitive to the specific needs of Indian elders and that interactions with elders are conducted in ways consistent with Indian language and culture.



Retirement Security Alliance

1150 17th Street, N.W. • Suite 601 • Washington, D.C. 20036
Tel: 202/861-8841 • Fax: 202/861-8842

White House Conference on Social Security -- December 8, 1998

Retirement Security Alliance Organizational Statement on Social Security Reform

Over the past year, President Bill Clinton has led the nation in a debate on the future of Social Security. Prior to the 1998 State of the Union, dozens of organizations and a handful of Members of Congress were working to publicize the need to reform Social Security sooner rather than later. However, over the past year, and largely because of the President's call to find a solution to Social Security's long term solvency challenges, scores of additional organizations and companies have become involved in this debate.

Throughout Washington and across the country, Social Security is a topic of conversation at political events and in corporate board rooms. On Capitol Hill, several pieces of legislation to reform Social Security have been proposed and several more are currently being drafted. However, finding a solution that can get the sufficient bipartisan support necessary to be implemented into law will require more interest from Members of Congress and the involvement of hundreds of more companies and organizations.

In an effort to help the Social Security debate move more rapidly toward reform, The Retirement Security Alliance has worked to build a coalition of organizations who are committed to the following principles:

- Concern about the looming crisis in retirement financing, particularly in Social Security, and the low national savings rate.
- Debate should extend beyond the traditional approaches of raising taxes and cutting benefits, including options that give Americans more choice and control over their Social Security contributions.
- Extensive public education on the issue of Social Security reform. Certainly this education must continue throughout the legislative process.
- Increased public activism in support of timely Social Security reform, with a target of reform legislation being adopted in 1999.
- A secure retirement for current and future retirees.

While everyone must work to engage more Members of Congress, organizations, and companies with the Social Security debate, we are at a unique moment where those involved and those contemplating involvement need to see a higher degree of bipartisanship than currently exists. Both parties need to adapt their efforts to secure the goal of increased bipartisanship. Increased bipartisanship is especially critical if more companies are to become involved with the debate. Corporate America will be more comfortable discussing the future of Social Security if they witness less political partisanship and less demagoguery that includes inaccurate and inflated statements from both sides of the debate.

With a few exceptions on both sides of the political aisle, there is no question that an environment of bipartisanship does not currently exist.

Another goal of the Retirement Security Alliance and its scores of members and friends is to begin a dialogue on the costs associated with both preservation of the status quo as well as all reform options being seriously considered. Without question, the White House Conference on Social Security and the subsequent legislative process in 1999 can be the catalyst for this discussion.

In poll after poll, there is apprehension about any form of payroll tax increase, concern about increasing our nation's debt, and most proposed benefit reductions. Public education has to be enhanced so that people understand that doing nothing is not an option and that whatever path Social Security takes in the future will mandate a price to be paid at some level. Until the public understands this reality, decision makers in Washington are going to be tepid in their involvement of the discussion of costs for the future of Social Security.

To realize the above goals, perhaps decision makers in Congress should ask themselves the following questions, and make their thoughts known to the public.

- Does the President think that reform is possible without stating his position on issues such as raising the retirement age, personal accounts, how to pay for current social security liabilities and other questions he has asked others, during the past year of dialogue?
- Do both political parties truly believe that their current actions are maximizing the level of bipartisanship necessary to solve the long term solvency challenges facing Social Security?
- If members of both parties could pick just one legislative initiative, which would it be: Tax cuts or Social Security reform?
- If we don't get Social Security reform in 1999, what is the next window of opportunity considering election year politics and the inevitability of a first-term president in 2001?

There are many other questions that need to be addressed. But the White House Conference seems to be the best venue to begin getting some answers.



Social Security Reform December 3, 1998
Submission of Dallas L. Salisbury, President, EBRI

EDUCATION AND
RESEARCH FUND

The Employee Benefit Research Institute (EBRI) joined others in early 1995 to launch a national savings education campaign. That work led to the SAVER Act, a 1998 National Summit on Retirement Savings (see more at www.saversummit.org), and the launch of a major print and broadcast education campaign called Choose to Save™. That campaign, in print and radio form, is now being used across the nation (see more at www.choosetosave.org). EBRI and its partner organization, the American Savings Education Council, were the private sector co-organizers of the summit.

The summit led me to three clear conclusions, which were highlighted in my opening presentation and in the final summit report. First, Social Security and pensions do not provide enough income for most Americans to have a comfortable retirement. Second, any change to Social Security must be undertaken with great care if it is to do more good than harm in terms of retirement income, survivors' benefits, and disability benefits delivery. Third, the nation is not yet doing enough savings and investing education to allow a smooth transition to individual choice in Social Security for at least 60 percent of the labor force, those who are not yet saving.

As a result, EBRI has both accelerated its own educational efforts and expanded its work on the analysis of alternative methods of Social Security reform, towards our constant objective: "informed design and decision making."

We first published a major Social Security reform study in 1983, which included a chapter on individual accounts. Like every other study on the subject published since that time, the focus was on philosophy and average numbers. The numbers have been projections of how individuals would fare—"on average"—given assumptions about contribution rates and investment returns. The analysis of individual accounts published to date has been lacking in a number of ways.

First, most of the analyses ignore survivors' benefits as a value of the present system. Second, most assume that all account holders get the same rate of return, and that this rate of return is above the bond rate but below a pure equity rate. Third, they use static analysis without consideration of investment risk, and present findings as if there is not any dispersion around the mean. Fourth, they simply assume that all forms of individual accounts are possible.

EBRT began work in 1996 to overcome these weaknesses in the way Social Security reform alternatives are assessed.

First, we worked to develop a stochastic model of the Social Security program that shows a distribution of possible reform outcomes, allowing you to see the winners and the losers within a cohort, not just the average for a cohort. Further, survivors' benefits are built into the model to allow a fuller comparison of the present system relative to an individual account system (see <http://www.ebri.org/SSProject/sslisting.htm>).

Second, we began working with the Investment Company Institute and major 401(k) record keepers in 1996 to develop a comprehensive data base that would allow us to input into the Social Security model information on how different individuals invest by age, income, and tenure. This allows real investment allocation variation to be used to assess likely investment

Suite 600
2121 K Street, NW
Washington, DC
20037-1896

202-659-0670

Fax 202-775-6312

Web Site <http://www.ebri.org>

501(c)(3) tax #83997835801

allocation, and rates of return, in an individual choice system.

Third, we began detailed administrative implementation analysis to assess what type of individual account might actually be possible given the current structure of the labor force and the current state of employer action in making SSA filings with the government. We considered the call of many advocates of individual accounts for a design that would not increase the work of small employers.

We concluded that any plan to reform Social Security by adding individual “defined contribution” accounts must address important logistical challenges and trade-offs that have been largely unrecognized in the reform debate. Such considerations will actually determine whether we can have individual accounts in Social Security, in what form, and in what time frame.

As an organization with **20** years of experience in administrative issues pertaining to employment-based savings plans, we found ourselves in a unique position to shed light on some important issues surrounding the administration of Social Security individual accounts. We’ve also seen Congress repeal laws such as the Medicare Catastrophic Coverage Act of 1988 and the Internal Revenue Code Section 89 “nondiscrimination” rules for health insurance plans (Tax Reform Act of 1986) because administrative issues were not worked out before reform was passed.

Our new survey of small employers’ attitudes toward individual accounts (www.ebri.org) underlines the importance to small employers of not adding substantial administrative burdens or costs and not increasing payroll taxes to pay for individual accounts.

Our new *Special Report/Issue Brief* lays out the facts and trade-offs, in the hope that others will use them to examine whether and how an individual account system might be designed to achieve policy goals. (<http://www.ebri.org/1198ib.pdf>)

The major findings of the EBRI analysis include:

- Adding individual accounts with investment choice to Social Security could be the largest undertaking in the history of the U.S. financial market. No system to date has the capacity to administer such a system, and it would take years to design, implement, and debug a new system and new software. The Social Security Administration now has a system that could be modified, but with substantial programming and design time required.
- Direct comparisons between employment-based retirement savings plans and Social Security reform proposals are tenuous at best. Social Security covers a substantial number of workers and businesses that have traditionally not participated in employment-based plans.
- Credit-based systems such as the current Social Security program are less difficult to administer than cash-based systems, which must account for every dollar-and in an appropriate timeframe-in order to avoid lost retirement income.
- Social Security individual accounts cannot be administered like 401(k) plans-i.e., by making account contributions each pay period through payroll deduction-without adding significant employer burdens, especially on small businesses.
- If legally subject to personal property claims, individual accounts could pose administrative challenges.
- Individual account benefits would be highly sensitive to administrative cost. So much so, in fact, that a “socialized basis point” charge would be essential, as compared to a per account charge, if the lowest income individuals are to experience any meaningful account buildup.

The tools are in place to allow this Social Security reform debate to be the most substantive/fact-based in history. Those who set forth proposals will have them tested for validity and results, by EBRI and others. The ultimate result should be a better policy outcome.



Securities Industry Association

1401 Eye Street, NW, Washington, DC 20005-2225, (202) 296-9410, Fax (202) 296-9775
info@sia.com, <http://www.sia.com>

For Release: Tuesday, December 8, 1998

Contact: James D. Spellman
(202) 296-94 10, jspellman@sia.com
Margaret Draper
(2 12) 6 18-053 1, mdraper@sia.com

SIA: WHITE HOUSE CONFERENCE WILL ENGAGE NATION IN DEVELOPING BIPARTISAN SOCIAL SECURITY REFORMS

**Solutions Should Include Personal Savings Accounts,
Preserve Basic Guarantees, Offer Choices, Create No New Burdens,
Hold Costs To A Minimum**

Securities Industry Volunteers Expertise, Experience To Help Policymakers

Washington, D.C., December 8 – In welcoming the White House Conference on Social Security, the Securities Industry Association today outlined five principles that it believes should guide Social Security reforms and volunteered its expertise on retirement policy, investor education, and capital markets to help policymakers develop long-term solutions.

“Americans of all generations believe that the Social Security problem is real and needs to be addressed now,” said Marc E. Lackritz, SIA’s president. “The White House conference provides a unique window of opportunity to build on that consensus and start forging bipartisan agreement on solutions. It’s imperative that our country have a viable Social Security system that will be there for tomorrow’s retirees as it is for today’s”

The solutions developed by policymakers, Lackritz said, should be based on principles that would: promote the preservation of the broad intents of the original Social Security system; and, encourage developing the system to give individuals greater control over their retirement assets, greater choice and flexibility in deploying them, and greater stewardship over their financial futures.

These principles as proposed by SIA are:

- **Any solution to Social Security should include some type of personal savings account.** Such accounts would increase net savings and introduce more Americans to the basics of savings and investing. This approach would continue the system’s fundamental fairness by providing all American wage-earners with the same investment opportunities.

- **Basic guarantees must be preserved.** Social Security made the American wage-earner a promise: there must be a minimum guarantee equal to that now provided to America's families. That includes the right now extended through Social Security to change jobs without losing the benefits, assets, or basic rights the system delivers. Social Security reforms cannot change that promise; they must only improve the way in which Social Security delivers on it.
- **Individuals must have choices.** If working families are to invest through the Social Security system, they should be allowed to make choices that reflect their differing individual circumstances. Families of different ages, incomes, and preferences will have different approaches to investing for the future. We must recognize and allow for those differences.
- **No new burdens.** Changing the system must not become a pretext for creating new burdens for employers. There should be no new payroll taxes and no new reporting requirements or paperwork for employers.
- **The costs must be minimal.** Investing in securities to earn a higher return only makes sense if the system's costs don't balloon. The system must be structured with minimal costs. The wage-earner's assets and benefits should not be eaten up in administrative fees. This means that the discipline of competition must be built into any system for private investment of Social Security resources.

The securities industry, Lackritz said, has extensive experience in helping tens of millions of Americans plan their investment strategies through Individual Retirement Accounts, 401 (k) plans and other savings programs. "SIA is committed to using its experience and expertise to solve any problems that may arise in the administration of personal savings accounts," he said.

"We look forward to engaging in a constructive solution that is vitally important to all Americans. We pledge to help Congress and the Administration resolve issues that may arise as Social Security reforms move toward being enacted," Lackritz said.

The Securities Industry Association brings together the shared interests of nearly 800 securities firms to accomplish common goals. SIA members -- including investment banks, broker-dealers, and mutual fund companies -- are active in all markets and in all phases of corporate and public finance. In the U.S. SIA members collectively account for approximately 90 percent, or \$100 billion, of securities firms' revenues and employ about 350,000 individuals. They manage the accounts of more than 50-million investors directly and tens of millions of investors indirectly through corporate, thrift, and pension plans. (More information about the SIA is available on its home page: <http://www.sia.com>.)

FUNDING SOCIAL SECURITY: A STRATEGIC ALTERNATIVE

Laurence S. Seidman* *

** Professor of Economics at the University of Delaware, author of the article, "Funding Social Security," *Tax Notes* October 12, 1998, p241-49 (available on request: phone, 302-831-1917; e-mail address, SeidmanL@college.be.udel.edu), and the book, *Funding Social Security: A Strategic Alternative*, Cambridge University Press, New York, 1999, 1-800-22 1-45 12).

My article and book present the case for funding social security. Funding social security is not a new proposal; its basic components have been recommended by other advocates of social security reform.

There are two middle positions between our current pay-as-you-go (PAYGO) defined-benefit social security, and privatized defined-contribution social security. One is PAYGO social security with supplemental individual defined-contribution accounts. The other is *funded social security*.

Funded social security is a defined-benefit plan. Funded social security is achieved by preserving the current U.S. social security defined-benefit formula, and gradually shifting the financing from payroll taxes to a mix of portfolio investment income and payroll taxes.

Funding social security has two distinct essential elements: fund accumulation, and portfolio diversification.

Fund accumulation requires gradually adjusting tax rates, ceilings, and benefit rates to achieve substantial annual surpluses. Protection from the payroll tax increase is given to low-income workers by expanding the earned income tax credit. A large permanent capital fund would then accumulate gradually over the next century, and the fund's annual investment income would eventually enable a permanently lower payroll tax rate.

Portfolio diversification is achieved by having the social security administration contract with private investment firms (under competitive bidding) to invest this capital fund in a conservative diversified portfolio of government bonds, and corporate stocks and bonds.

With *funded social security*, all investment risk is pooled: there are no individual accounts. Private investment firms manage social security's portfolio the way they manage the portfolio of conservative risk-averse private clients. Funded social security avoids excessive reliance on either government bonds (because the yield is lower) or corporate stocks (because the risk is higher). The investment firm handles stock voting as it does for private clients.

Funding social security will eventually double the return that workers obtain on their saving-- from 2% to 4%. In a mature PAYGO system, the return equals the growth rate of real output---roughly 2%. With funded social security, the return will be roughly 4% (the average of a 6% return from corporate stocks, and a 2% return from government bonds). This doubling of the return makes a tremendous difference over a person's lifetime. For example, consider a worker age 45 saving \$5,000 that year. Compounded at 2% per year it grows to \$7,430 at age 65; compounded at 4% per year it grows to \$10,956.

Funded social security rests on a cautious and realistic view of the stock market. It is important to emphasize two points. First, funded social security uses payroll taxes as well as portfolio investment income to finance benefits. Second, the portfolio is conservative: government bonds constitute an important share of the social security portfolio.

Like the current U.S. social security system, funded social security is a defined-benefit plan where each retiree's benefit is linked to the retiree's own wage history by a legislative formula; the benefit does not directly depend on the performance of the portfolio. If portfolio earnings fall, then a fraction of the portfolio must be sold to finance legislated benefits. However, if the portfolio performs poorly for several years, then either the legislative formula must be adjusted or payroll taxes increased. Thus, indirectly, benefits are eventually affected by portfolio performance: funded social security does not eliminate stock market risk. But it minimizes the risk for the individual retiree by pooling the risk over all retirees, utilizing a conservative diversified portfolio invested in government and corporate bonds as well as corporate stocks, spreading the risk over time by selling fund assets as a first resort while adjusting the legislated benefits formula only as a last resort, and using payroll taxes as well as portfolio investment income.

It is crucial to recognize that fund accumulation and portfolio diversification are separate components. It would be possible to have fund accumulation without portfolio diversification: social security could accumulate a large fund, but invest it solely in special non-marketable low-yield government securities (as it does currently under the U.S. Social Security system). Conversely, it would be possible to have portfolio diversification without fund accumulation: social security could maintain only a small fund, but invest that fund in a mixed portfolio. The term *funded social security* implies both components: a large capital fund invested in a diversified portfolio.

Fund accumulation is the key to raising the capital accumulation of the economy, while portfolio diversification is the key to capturing a larger share of the economy's capital income for the social security system.

Funded social security would be completely separated from the Federal budget. Congress would be expected to balance the budget without counting social security. One purpose of converting social security from PAYGO to funding is to raise the national saving rate. This purpose would be defeated if an increase in the social security surplus by \$100 billion permitted Congress to increase the deficit in the rest of the budget by \$100 billion.

There is no way to escape a transition cost if the objective is to raise the national saving rate through the funding of social security. Raising the saving rate entails a short run cost in order to achieve a long run gain. The cost is borne as a combination of a transitional tax increase and a temporary slowdown in benefit growth.

To protect the capital fund from a raid, each worker would be sent an annual statement that provides an estimate of his retirement benefit. The key to deterring a raid on the capital fund is to make sure that current workers realize that it is their future benefits that are being raided. If the fund is drawn down, then its investment income will be lower in future years, and so will social security benefits. If the Social Security Administration sends each worker an annual estimate of his expected retirement benefit, based on current tax rates, benefit rules, and the size of the fund and its investment income, then a raid on the fund this year would reduce each worker's expected benefit in next year's annual statement. With annual individual benefit estimates, members of Congress would be deterred from voting for a raid.

Common Objections to a Market-Based Social Security System: A Response

by Melissa Hieger and William Shipman

Executive Summary

The debate over whether Social Security needs to be reformed is largely over. The question now is what type of reform. Many experts suggest moving toward a saving and investment structure wherein some portion of the Social Security tax is invested in markets.

Opponents of privatizing Social Security, however, warn of numerous and formidable risks associated with markets. Among other issues, they raise questions of market risk, retirement benefits of low-income workers in a privatized structure, potential difficulties for unsophisticated investors in a market-based system, and the plight of survivors of deceased workers.

None of these objections survives a careful examination of the evidence. In fact, most represent a misunderstanding of financial markets and Social Security and how a privatized Social Security system would work. For example:

- Critics claim that private markets are dangerously risky and that only knowledgeable and experienced investors can successfully handle such risks. In reality, however, long-term investment in private capital markets is less risky than the current Social Security system and can be handled by even inexperienced investors.
- Because Social Security has a progressive benefit formula, some assert privatization would hurt low-wage workers. Moreover, others claim that a privatized system would appeal only to the wealthy and most savvy investors. However, because of its much higher returns, a privatized Social Security system would actually benefit low-wage workers and would appeal across all individual income and education levels.
- One of the most common criticisms of privatization is that private financial institutions would charge excessive fees, thereby reducing retirees' returns to unacceptable levels. However, actual fees and administrative costs for existing investments are generally well below 100 basis points (one percent). Assuming fees of this magnitude, yields would still be much higher than benefits currently provided by Social Security.
- Finally, critics claim that a privatized system could not provide survivors' benefits. In reality, a market-based retirement system would provide better survivors' benefits than the current system.

To read the rest of this paper, visit www.socialsecurity.org.

Melissa Hieger is a vice president and William Shipman is a principal with State Street Global Advisors. Mr. Shipman is co-author of *Promises to Keep: Saving Social Security's Dream* and co-chairman of the Cato Project on Social Security Privatization.

Social Security Advisory Board

400 Virginia Avenue, SW * Suite 625 * Washington, DC * 20024
Tel: (202) 475-7700 Fax: (202) 475-7715

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“SOCIAL SECURITY: WHY ACTION SHOULD BE TAKEN SOON”

The following statement is an excerpt from a report issued in July 1998 by the bipartisan Social Security Advisory Board, entitled “Social Security: Why Action Should Be Taken Soon.”

“The Nation is engaged in an important discussion about the future of Social Security. There are many views about the kinds of changes that should be made. Whatever one’s views, essential facts should be agreed upon. The purpose of this paper is to establish two realities that every citizen needs to take account of (1) the dimensions of the changes that are required if the Social Security system is to maintain solvency beyond 2032, the year the Trust Funds are projected to be exhausted, and (2) the need to make these changes sooner rather than later.

“Congress has amended the Social Security law many times since it was enacted in 1935. It has never allowed the program to reach the point where promised benefits could not be paid, and it is unthinkable that it would ever do so in the future. However, delay uses up valuable time, and gives policy makers and the American people fewer and more difficult choices. Prompt action is essential if we are to restore confidence in the future of Social Security and enable today’s workers to plan for a secure retirement.

“Social Security is a social insurance program to which nearly all workers, along with their employers, are required to contribute in order to provide protection against the risk of loss of wages due to retirement, disability, or death of a worker. Retired workers make up 62 percent of all beneficiaries. But the program’s income protection extends beyond retired workers. According to estimates, about 4 out of 10 young men, and 3 out of 10 young women, who are now age 20 will die or become disabled before reaching age 67. Today, 10 percent of all Social Security beneficiaries are workers who are disabled and have not reached retirement age; 11 percent are spouses and children of retired and disabled workers; and 16 percent are spouses and children of deceased workers. Whatever changes are enacted, Social Security must continue to protect these vulnerable individuals.

“Some think that Social Security should become more of a retirement savings program. They propose that a portion of a worker’s earnings be placed in individual investment accounts, either on a mandatory or a voluntary basis. Others believe that the program should be maintained largely as it is now, and that solvency should be maintained without making structural changes. (See page 21 for a brief description of some of the proposals that have been made to address the long-range solvency problem.) All of the proposed changes require trade-offs. Evaluating the merits will require careful assessment of their impact on the well-being of individuals and of the society at large.

“In considering changes to Social Security, it will also be necessary to take into account the Medicare program. Over the next few years, legislative changes will have to be made to Medicare if the Hospital Insurance Trust Fund is to remain solvent beyond 2008, the year it is projected to be exhausted. Because Social Security and Medicare serve many of the same individuals, and both are financed largely from payroll taxes, they share the challenge of paying for benefits for an increasing number of older persons at the same time that growth in the workforce is slowing. It will be important for policy makers to consider the impact that changes in one program may have on their ability to assure the long-range solvency of the other.

“Finally, it is important to recognize that Social Security is only one part of our multi-pillar retirement income system. Social Security has always been intended to provide a foundation for retirement income that needs to be supplemented by individual savings and employer pensions. All parts of this system are in need of review since Americans as a whole are not making adequate provision for their retirement. Social Security reform should be meshed with a strengthening of the other parts of the retirement income system, including employer pensions, individual retirement accounts, 401(k) plans, and other saving mechanisms. Considering Social Security reform within this larger context is a vital aspect of the reform process.”

THE URBAN INSTITUTE

2100 M STREET, N.W. / WASHINGTON, D.C. 20037 / (202) 833-7200

C. EUGENE STEUERLE
SENIOR FELLOW

DIRECT: (202) 261-5545
FAX: (202) 728-0232
E-MAIL: ESTEUERL@UI.URBAN.ORG

WHITE HOUSE CONFERENCE ON SOCIAL SECURITY

FAR MORE THAN AN ISSUE OF SOCIAL SECURITY

C. Eugene Steuerle

Not Just Social Security

*What is often labeled as the aging problem is far more pervasive than Social Security. The issues are not just what can we afford for Social Security but what *should* we afford, and how can we obtain an adaptable and flexible government policy that deals with our most important needs over time.*

New Opportunities, New Responsibilities

Much of what must be addressed in Social Security and Medicare derives from “good” things happening to us: longer lives and better health care. But we have a budget that is geared to a mid-20th century view of the world: an industrial economy, not a service and information economy; an elderly population that used to have lower, but now has equal or higher consumption levels than the young; and workers who formerly retired when they were old rather than now retire for almost the last third of their adult lives. Where “bad” things are happening to us -- e.g., children unattended by adults, failures of our educational system -- we claim that commitments to growing retirement and health benefits mean we have “more will than wallet.”

Restoring Discretion to Voters and their Elected Representatives

Our laws now assert to all future generations that we know better today how to spend almost ALL of the revenues they will have 10, 50, 100, or 200 years from today. Social Security and health entitlement programs are scheduled to continue displacing most discretionary spending over time. Revenues are growing and will probably double in real terms over the next 20 years or so, but essentially all of that growth has been precommitted. Never before in the history of our country have so many commitments and so much growth been scheduled in our laws for nearly an eternity -- and so little left to the discretion of each generation.

The Crucial Fewer Taxpayers More Beneficiaries

What forces Social Security issues to a head is the scheduled decline from a ratio of workers to beneficiaries of more than 3-to-1 to less than 2-to-1. This dramatic fall in workers affects not just Social Security, not just Medicare and Medicaid nursing home care, but everything from education to defense. In effect, despite the extraordinary attention to issues of saving, the forthcoming shortfall relates to the labor market changes and the scheduled early retirement of so much of our “human capital.” A vibrant labor force is the main source of our productive strength, as well as the taxes that support all government programs.

Current Levels of Benefits

Almost everyone retiring in the future is still likely to get as high or higher lifetime benefits than those retiring today. Most proclaimed “reductions” in benefits are really decreases in the rate of growth in benefits. Even after reform, benefit packages likely will be worth more than the package of about \$1/4 million in Social Security and \$1/4 million in Medicare for an average-income couple retiring today.

Promises Exceed Available Revenues

In a transfer system, fewer taxpayers and more beneficiaries mean that extraordinary pressures on benefits and taxes cannot be avoided. Today every three workers transfer about 20 percent of their taxable wages to each single beneficiary. They therefore support each beneficiary at about 60 percent (counting health and other elderly programs) of their average taxable wage. If we accept the scheduled drop to less than two workers, the beneficiary can be held harmless only if the tax rate rises to 30 percent of taxable wages; alternatively, the taxpayer can be held harmless only if combined elderly benefits fall from 60 percent to 40 percent of the average wage.

Added Workers Deter Benefit Cuts and Tax Increases

Outside of reducing benefit rates or raising tax rates, the most direct approach is to stem the drop in workers to beneficiaries, for example, by providing retirement benefits only for 15, 16, or 17 years of life expectancy. Fewer retirees in late middle age deters annual benefit rates from falling in old age and tax rates from rising for the young. The double gain comes because later retirement simultaneously reduces the number of beneficiaries and increases the number of taxpayers -- not just for Social Security, but for Medicare and other government programs as well.

Increase in Future output

Still another approach to reform is to try to increase future resources by saving more. Given low national saving, these efforts have considerable merit. However, government’s ability to control saving has always been weak: individuals can offset any government action over in another fund or through other saving and borrowing. Therefore, while there is merit in trying to increase saving and for government to fund its future promises, the anti-poverty core of the system cannot be made dependent upon the unknown success of efforts to encourage or mandate saving.

Better Protection for the Poor Possible

It is possible both to provide greater protection to low-income individuals and to rely more on individual saving accounts. The trick basically is to bump up the minimum level of guarantees in Social Security, while counting more on saving to supply growing benefits to middle- and higher-income individuals.

(As part of the plan of the National Commission on Retirement Security, I introduced a new minimum benefit that would increase basic annual Social Security benefits for a significant percentage of low-income individuals and practically eliminate elderly poverty even before adding in any saving in individual accounts.)

Watch Out for Magic Money

Many proposals now on the table from all sides count on “magic money.” That is, they rely upon the government borrowing at a low interest rate, and investing the trust funds or individual accounts in higher-yielding stocks and bonds, and then making money out of the arbitrage. They also add contingent liabilities of trillions of dollars.

American Federation of Labor and Congress of Industrial Organizations



815 Sixteenth Street, N.W.
Washington, D.C 20006
(202) 637-5000
<http://www.aflcio.org>

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AFL-CIO President John J. Sweeney Statement on Social Security

America's working families have a huge stake in the future of Social Security, and the 72 national unions of the AFL-CIO and our 13 million members will be fully engaged in the drive to strengthen this, our nation's most important and comprehensive family protection system.

Strengthening the system demands reasoned, responsible changes — not phony schemes railroaded by extremists to "save" the system by scrapping it. While the program's finances must be shored up to meet its commitments to today's workers, radical changes should be propelled neither by a false sense of "crisis" nor by questionable long-term economic projections. Rather, changes to strengthen Social Security must be guided by a clear and full understanding of the program's role in the lives of ordinary people and of the real impact of proposed changes on Americans, both direct and indirect.

In no case should the program's core guaranteed benefits upon which a majority of older Americans depend be traded in for risky and expensive private accounts. Furthermore, most Americans cannot work to age 70 or older, cannot afford cuts in guaranteed benefits, and will not tolerate changes that make the system less fair.

- 1. Social Security is the foundation of retirement income for America's workers and their families and the principal insurance against family impoverishment due to death or disability.** Its role must not be compromised nor its financial condition weakened. Two thirds of older Americans rely on Social Security for half or more of their income -- and 30% of them get 90 percent or more of their income from Social Security. The system's guaranteed benefits are especially crucial to women and workers of color. Without Social Security, more than half of people 65 and older would live in poverty, compared with 11 percent today. And the system provides benefits to six million workers with disabilities and dependents, and seven million survivors of workers who have died.
- 2. Social Security must be strengthened so it can meet its commitments to today's workers, just as it has to workers — without missing a check — for the last sixty years. But there is no "crisis."** "Sky-is-falling" rhetoric is being used by extremists to undermine support for the current system and replace it with costly private investment accounts. A privatized Social Security system would mean billions of dollars in fees for banks, insurance companies and investment firms — an estimated \$240 billion in the first 12 years of privatization alone.

3. **Working families would be heavy losers under privatization.** Privatization proposals call for some combination of:

- raising the retirement age to 70 or older — which would be especially hard on workers in physically demanding jobs and workers of color, who have lower life expectancies;
- cutting Social Security's guaranteed benefits (one major proposal cuts them 48 percent; another reduces the maximum guaranteed benefit to \$4 10 per month);
- reducing or eliminating cost-of-living adjustments, hitting workers with the longest life expectancies hardest.

In addition, privatization would entail dramatically higher costs (out of workers' benefits) to finance a likely unworkable system of 140 million private accounts. It would also leave benefits dependent on workers' luck or skill as investors and the ups and downs of the stock market and adversely impact workers' private pensions.

Addressing the long-run financial challenges of Social Security does indeed demand responsible changes to the system, and the AFL-CIO is committed to enacting reforms to address the system's shortfall. The AFL-CIO Executive Council has agreed upon seven fundamental principles that reforms must meet, if they are to work for working families.

- Steps must be taken soon to strengthen Social Security so that all Americans can be assured that the program will be there for them.
 - Social Security should continue to provide retired and disabled workers, as well as dependents and survivors, with a guaranteed monthly benefit, protected against inflation, for life.
 - Benefits should not be subject to the whims of the market, and private accounts should never be substituted for the core defined benefits the system currently provides.
 - The age at which workers are eligible for early or full benefits should not be raised.
 - Social Security should continue to replace a larger share of past earnings for low-income workers and to provide bigger benefits to workers who earned higher wages during their careers. Replacement rates should not be cut.
- Social Security should continue to provide family insurance protection, with benefits that cover dependent and surviving children and spouses in addition to disabled and retired workers.
- Government budget surpluses should be used to save Social Security first, not to pay for tax cuts.

If Social Security did not exist, we would have to create it. No other system provides every working American with a core guaranteed retirement benefit protected against inflation for as long as he or she lives. No insurance policy on the market today matches the protections Social Security provides to families through its disability, dependent and survivor benefits. And no private pension system compares with the efficiency of Social Security's low administrative cost of less than one percent per dollar paid out in benefits.

The deliberation over how to strengthen the foundation of retirement income for working families is undoubtedly one of the most important national debates for the new century. We should not compromise our expectations of the system or the security of America's families.



THIRD MILLENNIUM, 121 Avenue of the Americas, Suii 505, New York, NY 10013-1510 Ph: 212.2262077 En-tail: thirdmil@juno.com
WASHINGTON, DC OFFICE, 1401 17th Street, Suii 213, NW, Washington, DC 20036 Ph: 202.939.0077 Website: <http://www.thirdmil.org>

Questions for President Clinton
From Richard Thau and Heather Lamm
Executive Director and Chairperson, respectively, of Third Millennium
December 8, 1998

Rather than making a statement, we have several questions for President Clinton:

- 1) Today's workers pay the highest FICA taxes in American history, as much as \$8,482 per year. At the same time, the Social Security trustees project that the program will be able to pay only 75% of promised benefits by the time our generation retires in the 2030's. Do you believe this represents an inherent unfairness built into the Social Security system, and if so, how do you plan to remedy it?
- 2) Some people suggest raising the FICA tax by 2.2 percentage points as a way to save Social Security. For a self-employed worker earning \$30,000, such an increase would mean an additional \$660 in payroll taxes over and above his/her current \$3,720 annual contribution. Do you support or oppose any tax increase in FICA (including an increase in the cap on taxable wages)?
- 3) A male turning 65 this year has a 50-50 chance of living to 80 years of age. The female turning 65 this year has a 50-50 chance of living to 84. Many people in our generation (born in the 1960s and 70s) could reasonably expect to live into their 90s. With increasing lifespans, do you believe:
 - a) that people should work longer, and the eligibility age for Social Security should be raised to 70 for people under 50, or even indexed to average lifespan?
 - b) that people who can expect to spend 1/3 of their lives as senior citizens should be required to pre-fund some of their retirement needs? And if so, do you think the most effective way to create a nation of savers is to convert a small portion of Social Security into a defined contribution plan?
- 4) If you agree with your 1994-96 Social Security Advisory Council that a portion of Social Security contributions should be invested in the capital markets, do you believe that the Federal government should do the stock picking collectively for everyone, or that individuals should have a personal account and a choice of where to invest their funds?
- 5) If Social Security did not exist, and you had to create it from scratch as President Roosevelt and Congress did in 1935, would such a program include a personal account component?
- 6) Which constituency is more important in this discussion: those who pay the FICA taxes or those who receive the Social Security benefits?
- 7) Do you believe that rate of return, measured across generations, is a fair way to gauge the fairness of Social Security? If so, are you concerned that today's young adults and future generations are expected to get a lower rate of return than older generations?



UNITED STATES OF AMERICA
RAILROAD RETIREMENT BOARD
844 NORTH RUSH STREET
CHICAGO, ILLINOIS 60611-2092

DEC 3 1988

BOARD MEMBERS :

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As Chair of the Railroad Retirement Board, I appreciate the opportunity to participate in the White House Conference on Social Security.

The \$8 billion a year retirement, survivor, and disability benefit programs administered by the Board under the federal Railroad Retirement Act, and their financing, are closely coordinated with the old-age, survivor and disability insurance programs provided by the Social Security Act. Railroad retirement beneficiaries are also covered under Medicare on the same basis as social security beneficiaries.

Under the two-tier railroad retirement system, which includes both social security equivalent and staff retirement benefits, tier I railroad retirement payments are based on social security as well as railroad retirement credits, computed under social security formulas, and issued to dual beneficiaries in combined benefit payments adjusted to omit duplications. At the same time, while railroad work is covered under the Railroad Retirement Tax Act rather than the Federal Insurance Contributions Act, rail employees and employers pay tier I railroad retirement payroll taxes at the same rate as social security taxes, and a financial interchange between the two systems equitably apportions benefit payments and taxes between the railroad retirement and social security trust funds.

Legislative changes to the Social Security Act consequently become applicable to the Railroad Retirement Act, and significant changes in the social security system are of great importance to the retirement system serving the nation's rail workers and their families.

Therefore, while I have not as yet come to conclusions regarding the future direction of social security, I look forward, as the Board's public member, to being part of the discussion on this topic, which is of such vital concern to the future financial security of railroad retirement beneficiaries as well as to all Americans.

Sincerely,

Cheryl T. Thomas
Chair





STRENGTHENING SOCIAL SECURITY FOR YOUNG WORKERS

FOR MANY YOUNG ADULTS, economic prospects have deteriorated sharply in recent years. According to the U.S. Department of Education, from 1972- 1995, annual incomes for young adults age 25-34 plunged twenty-one percent for college graduates and thirty-five percent for high school graduates. The Clinton economic expansion is helping, but it cannot continue forever. A long-term commitment to full employment at living wages is still needed.

The problem results from poor standards in many of the new jobs created in our economy: part time, small business, service sector and temporary jobs. These are the jobs of the future.

As the Social Security debate moves forward, policymakers should recognize the broader economic context of America's new workplace and seek solutions that will leave younger generations with a solid safeguard for an uncertain future.

SOCIAL SECURITY MATTERS to young adults for many reasons. While annual incomes for young adults have plummeted since 1972, pension coverage for workers age 25 or less dropped one-third; for workers age 25-29, coverage dropped fifteen percent, according to the Department of Labor. The jobs of the future hold little promise of improvement.

Only 3.1 percent of temporary employees — half of whom are age 20 - 34 -- have a 401(k), and not one has a pension, through their employment. Similarly, only eighteen percent of workers in small businesses (fewer than twenty-five employees) have any retirement plan. According to the Department of Labor, small businesses created seventy-five percent of all new jobs in 1995.

As Commissioner Kenneth Apfel has remarked, one-third of all Social Security beneficiaries are not retired. They are survivors, disabled workers, and their families. Many of these young families depend upon Social Security to pay rent and medical bills or finance an education.

Far from being millionaire internet entrepreneurs, most young adults will be working in service sector jobs of short duration, with few of the safeguards that once existed for workers in the manufacturing economy. These young workers need Social Security to be there for them, and they need Social Security's future resolved in a manner that strengthens the basic survivors, disability, and retirement guarantees.

PRIVATIZING SOCIAL SECURITY IS WORSE for Generation X workers than any other age group. Privatization is touted as a remedy for illnesses said to afflict younger generations — the so-called ravage of overly abundant grandparents, a government that cannot be trusted to keep its promises, or a 21st Century American economic Ice Age. Privatizing Social Security will solve none of these problems.

Unfortunately, many young people have come to believe that Social Security will not be there for

2030 CENTER
1015 18TH STREET, NW
SUITE 200
WASHINGTON, DC 20036

VOICE: 202 822 6526
FAX: 202 822 1199
WEB: 2030.ORG
EMAIL: 2030CTR@TIDALWAVE.NET



them (the depth of this belief, however, is not clear; it may be quite shallow). While privatization advocates claim that an individual account will restore some of their faith in Government, this claim is false both in fact and motivation. More likely, it will foster an attitude that our interests are best served by abandoning collective commitment.

More importantly, young people have never been told what privatization would do to the Social Security Trust Fund. Most young people do not want an “alternative” to Social Security; they just want Social Security to be there for them. If a privatized account will accomplish that goal, they might favor the proposal. If a privatized account threatens Social Security, they will oppose the proposal. Non-biased opinion research reaches this conclusion.

In order to divert a portion of payroll taxes into privatized accounts, privatizers must reduce Social Security guaranteed benefits for future generations by 20 - 40 percent and increase the retirement age. Worse, the benefit cuts seriously jeopardize millions of survivors and people with disabilities. Every privatization proposal either cuts survivors and disability benefits dramatically (15-30 percent) or has no plan at all for raising the large amounts of revenue needed to keep benefits intact. These young adults’ benefits will go first to the chopping block.

STRENGTHENING, NOT UNDERMINING Social Security is the best course. Taking Social Security off budget, investing the surplus like a pension, applying FICA more fairly to wealthier workers, using general revenues, and indexing FICA to increases in life expectancy (\$2 annually) are all good options. The distinction between a good proposal and a bad proposal is the degree to which it will assure the safeguard of Social Security’s guaranteed benefits.

There is agreement that the Federal budget surplus can be used to strengthen Social Security, and that significant benefit cuts or tax increases should be off the table. Individual accounts are a viable option, if they are a voluntary supplement requiring no cuts in Social Security benefits.

Common ground can exist if policymakers heed public opinion. In polls by Americans Discuss Social Security, the public, when presented with the trade-offs involved with various options (such as private accounts), choose *security* over risk every time, even if it means higher FICA contributions. In the 2030 Center poll, 86 percent of all Americans say that “Congress should not reduce benefits or raise the retirement age in order to fund individual accounts.”

THE 2030 CENTER is a public policy organization for young adults, founded in 1997 to provide a voice for young people’s economic concerns in order to reverse the deterioration of their economic circumstances.

The 2030 Center is at the forefront of developing progressive strategies to strengthen Social Security. We speak to audiences of all ages, write articles and op-eds, advise Congressional staff, conduct survey research and policy development, train young leaders, and provide a younger generations’ perspective for major events and the media.

In the summer of 1998 we released a national poll on Social Security reform, conducted by Peter Hart Research, which found deep support among young adults for Social Security. This month, we released our policy manual, *Strengthening Social Security for Young Workers*.

PRINCIPLES FOR SOCIAL SECURITY REFORM

Social Security is in serious financial trouble. By 2013, just 15 years from now, the program will begin running a cash deficit. By 2032, even if all the money owed to Social Security is repaid, the trust fund will be exhausted.

In addition to staving off insolvency, another critical reason for reforming Social Security is to give working Americans the opportunity to build real wealth for true retirement security.

Raising taxes is not the solution to Social Security's looming fiscal crisis. The Social Security payroll tax has exploded from 2 percent in 1937 to 12.4 percent today—a sixfold increase. Nor is the solution to cut benefits to current retirees. Today's seniors paid into Social Security their whole lives with the expectation that they would receive a certain minimum level of support. To change the rules on them now would be unfair.

The time has come to redesign Social Security and to begin the transition to a funded pension system based on personal retirement accounts backed up by a federal safety net. Following are the principles that United Seniors Association believes should serve as the basis for successful reform of Social Security:

- The federal government must guarantee all benefits promised to current beneficiaries and those nearing retirement.
- Workers should be allowed to establish their own personal retirement accounts and to privately invest a portion of their Social Security payroll taxes.
- Retirees and workers should be given ownership of trust fund assets.
- Saving the existing Social Security program or paying for the transition to an improved retirement system must be accomplished without raising taxes.
- The federal government should not, under any circumstances, be allowed to privately invest workers' retirement funds, nor should the government be permitted to regulate how workers privately invest their own funds beyond that required to ensure safety and soundness.

The U.S. Junior Chamber of Commerce **CALL TO ACTION**

CALL FOR DEVELOPMENT OF RESPONSIBLE SOLUTION TO THE FUTURE ECONOMIC SOLVENCY OF THE SOCIAL SECURITY SYSTEM

Adopted March 16, 1996

Revised June 25, 1997

Expires March 16, 1999

WHEREAS, real wages for middle and low income Americans have been declining since the mid- 1980s, causing diminishing economic opportunities; and

WHEREAS, middle and low income Americans fear that they face declining economic opportunities; and

WHEREAS, up to 75 percent of all Americans have little or no opportunity to become savers or capital owners or to share in equal economic opportunity; and

WHEREAS, the demographics of America are changing - we are aging as a society; and

WHEREAS, as the Baby Boomers retire, the number of retirees will almost double by the year 2030, rising from over 40 million to over 80 million retirees; and

WHEREAS, the nonpartisan 1994-95 Entitlements Commission, co-chaired by Senator Robert Kerrey (D-Nebraska) and Senator John Danforth (R-Missouri), found that by the year 2030 more than all existing federal revenues, 19 percent of the Gross Domestic Product (GDP), would be consumed by the Social Security and Medicare programs causing federal taxes to double to 38 percent of GDP to pay interest on the national debt and to maintain regular budgetary needs, i.e. education, environment, defense, and job training, all before paying state and local taxes of 10 to 15 percent; and

WHEREAS, in 1945, there were 20 workers supporting one retiree, in 2030, there will be less than two workers asked to support one Social Security and Medicare recipient, and these workers will be asked to accept a 60 percent lifetime tax rate; and

WHEREAS, most Americans are concerned about their economic future, distrust large government bureaucracies, and are eager to regain a sense of being in charge, of having control in their lives; and

WHEREAS, most Americans feel that the current generation will pass a lower standard of living and less economic opportunity to their children and grandchildren, and

WHEREAS, many young Americans feel they are more likely to see a UFO than their Social Security benefits; and

WHEREAS, Social Security was established to provide for our nation's elderly, and, to that end, is one of the most effective social institutions ever created in America; and

WHEREAS, we need to meet our Social Security promises to existing retirees and future retirees;

NOW, THEREFORE, BE IT RESOLVED that The United States Junior Chamber of Commerce Executive Board of Directors:

- Recognizes that Social Security is in need of immediate revision;
- Recognizes that the future of Social Security is a concern for young people and future generations in the United States;
- Recognizes the need for capitalization of the social security system, thereof private funding;
- Recognizes that poor people and the indigent are especially hurt by the current system in place;
- Gives authority to the USJCC staff to pursue a Social Security project in local Junior Chamber communities.



WOMEN'S INSTITUTE FOR A SECURE RETIREMENT

Social Security has been the nation's single most successful social program, helping millions of men and women to escape poverty in old age and reducing the financial burdens that their children and grandchildren would otherwise have to bear. But now some members of Congress say that Social Security is living on borrowed time and requires a major overhaul — rather than just a tune-up with the types of minor adjustments that have been made throughout its history. Are they right? Is it time to change Social Security by creating a nationwide system of individual accounts?

The Basics

Women are far less likely than men to have retirement income from a private pension or a savings account, so the Social Security program is crucial for women. In fact, nearly 40 percent of older women living alone depend on Social Security for almost all of their income.

Today, the present system works like a defined benefit plan — when you retire you receive a certain benefit for the rest of your life. You also receive an increase in your benefit to protect the value from declining because of inflation.

The folks who want to totally revamp the system want to change it to a defined contribution plan — when you retire you'll have a certain amount of money in your personal account — and when you reach retirement age, you can cash it out or buy an annuity that will pay you a benefit for the rest of your life — but without inflation protection.

Proceed with Caution

For all the doomsday talk, the fact is that Social Security is not going broke. The most recent report from the Trustees shows that without any change to the present law, full benefits can be paid until 2032. After that, even if no changes were made, the amount of money being paid in would still cover three-fourths of expenses. So we are not looking at bankruptcy of the system we're looking at an eventual shortfall. Changes should be made but there is no immediate crisis. The house is not burning down, it just needs repairs.

Women have a particularly important stake in making sure that any changes to Social Security are carefully considered. Here are some reasons why:

- Women earn less. What happens if you didn't earn much money during your working years? The current system favors lower earners over higher earners, because of the formula used to calculate benefits. Typically women have a record of lower earnings because they leave and re-enter the workforce to care for their families and because women earn only 74 cents for every dollar that men earn. This type of protection is lost in an individualized account system.
- Women live longer. What happens if you outlive your income? The current system pays a benefit for as long as you live. Under an individual account system the size of your benefit

depends on your investments. Because women live longer and longevity is increasing, we should be careful of changes that could make matters worse. Today, more than twenty percent of older single women live in poverty.

- Can you count on the stock market? Having a private account means that you bear all the risk of investing. But even if the stock market continues to climb, a system of private accounts will only do well on average. Because women typically earn less, many will have smaller-than-average accounts.

And because people with less money are typically conservative investors, women are likely to earn below-average returns. Moreover, you could lose your shirt if because of the timing of your retirement you have to cash out your account or convert it to an annuity when the stock-market is not performing well. Moral: Beware of rosy scenarios based on averages.

- What if you get divorced? Under the present system, a woman who was married for 10 years or more is entitled to half of her former husband's benefit while he is alive. When he dies, she is entitled to the same widow's benefit she would have received if she had stayed married. At this stage, none of the proposals include provisions relating to divorce.
- What about life insurance? The current system provides protection for the spouse and children of a worker who dies or becomes disabled. An individual account system would give less protection by only providing what's in the account at the time of death.

While the present system can clearly be improved — for example, by increasing benefits for widows, who are four times more likely than wives to end up in poverty — but it's hard to justify a major overhaul that would reduce guaranteed benefits unless there's no other choice. And that's not the case. According to the acclaimed financial writer Jane Bryant Quinn, an individual account system would be a losing deal for most people.

Making the wiser choice

Minor changes

Here are a few of the easy fixes being suggested: investing some of Social Security's revenues in the stock market, instead of exclusively in low-yield Treasury bonds as required under present law. This could increase investment returns, just as with private accounts — but without the risks to individuals. Also if the Consumer Price Index was calculated so that adjustments for inflation were on target, much of the shortfall would be eliminated.

As with any proposal that attracts the attention of Congress, we need to look at who's pushing the idea of individual accounts and why. Social Security takes in \$1.25 billion every day. Clearly the fees for managing even a fraction of that sum are staggering. But whether it would benefit the majority of working Americans is less clear.

Unfortunately, the current focus on Social Security is distracting attention from what should be a more immediate concern: improving private pension coverage. Less than half of the workforce have pensions — that's the real retirement problem that Congress and the media should be looking at.



HMONG NATIONAL DEVELOPMENT, INC.

1326 18th Street, NW, Suite 200A • Washington, DC 20036
Tel: (202) 463-2 118 • Fax: (202) 463-2119 • E-mail: HND97DC@nmaa.org

Statement of Hmong National Development, Inc. on Social Security Reform

by
Lee Pao Xiong
President

We congratulate the effort of this Administration on its effort of reaching out to under-represented groups, such as the Hmong community, by allowing us to share our views on the Social Security Reform. We further applaud this Administration for given us the opportunity to work with the technical language when Congress and the President restored SSI to the legal immigrants.

We were very concerned when we heard that new immigrants and refugees, who were taxpayers of this country, would be denied Social Security benefits because they were not United States citizens. Since many of the Hmong came here as immigrants and refugees, many of our elders do not have the language mean to pass the citizenship test, we were extremely worried. We came from a country where most of our people were trained either as warriors by the CIA or farmers by trade. This policy of exclusion was a grave concern for our people. However, we were relieved to know that President Bill Clinton was committed to restoring all benefits to legal immigrants and refugees, which he eventually did. We hope that you would maintain this policy of acceptance and compassion for our people.

Since the Hmong people are new to this country, we have yet to learn about the many benefits and services available to us as taxpayers through the various federal agencies, including the Social Security Services Administration. We do know for sure that our social security and other federal taxes are being taken out of our paychecks every month.

As a national organization, the Hmong National Development would like to continue working with this Administration to make sure that the Hmong community can fully utilize the benefits and services that are available to them as taxpayers.

We wish for a success at this conference. If there's anything that we can assist in this effort of reaching out to under-represented groups, please feel free to call on us. Thank you.