Statement of

Barbara B. Kennelly
President and CEO of the
National Committee to
Preserve Social Security
and Medicare

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Regarding

Long-term Budget Implications for Social Security

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Chairman Nussle, Ranking Member Spratt, members of the Committee, I appreciate the opportunity to testify before the House Budget Committee on this issue of critical importance, the long-term budget outlook for Social Security. On behalf of the millions members and supporters of the National Committee to Preserve Social Security and Medicare, I am delighted to be back in the halls of Congress with my former colleagues. Thank you for holding this timely and important hearing.

Most Americans who have any recollection of the Great Depression will understand that Social Security was created to guard against what President Franklin Roosevelt described as the "hazards and vicissitudes of life." For nearly 70 years Social Security has guaranteed working families would have some income in the event of old age, death of a family wage earner or disability.

Social Security provides benefits in a manner that is both progressive and fair. No other wage replacement program, public or private, offers the protections of the Social Security Old Age, Survivors and Disability Insurance program. In addition to retirement income, thirty-eight percent of all Social Security benefits are paid to disabled individuals, spouses of retired and disabled workers, dependent children and survivors.

Today Social Security continues to meet this challenge, and despite recent economic sluggishness, the 2002 Social Security Trustees Report shows an improved forecast for the system with full solvency extended another three years to 2041. By 2017 Social Security will have accumulated over $5 trillion in treasury bonds, backed by the full faith and credit of the United States Government.

In 2017 the program will begin to tap its interest on these bonds. Beginning in the year 2027, interest and tax revenues combined will be insufficient to meet benefit demands and the program will need to redeem bonds held by the trust funds. In the year 2041, if no changes are made, the trust funds will be exhausted and incoming revenues will meet only about 72 percent of current benefit obligations. Even at this point, Social Security will not be "broken". This shortfall, if addressed today is quite manageable. Benefit adjustments and/or new revenues equivalent to 1.86 percent of payroll or 0.72 percent of GDP would be sufficient to cover the cost of currently promised benefits for the next 75 years.

Long-range Social Security Solvency is directly linked to the strength of the economy. The prosperity of the late 1990s dramatically improved the financial outlook of Social Security, with the date of insolvency improving 14 years (2027 to 2041) in the past six years, on the strength of the economy alone.

But continued economic growth alone will not solve all of Social Security's long-term problems. We must begin a real debate, beyond privatization, to make the adjustments that can be made today, to ensure that the program will be intact for future generations. The sooner we begin, the less difficult the decisions will be.

First, we must move back toward efforts to pay down our mounting federal debt not attributed to the Trust Funds. During the last year of the previous administration, and the first year of this one, our nation was on track to completely repay public debt by 2012. This would have taken a tremendous burden off of future generations expected repay obligations to Social Security Trust Funds and cover their other needs as well.

Last year’s ten-year, $1.7 trillion tax cut combined with a sagging economy, and the subsequent need to respond to the horrific events of 9-11-2001 completely erased a projected 10-year $5.6 trillion surplus. Now instead of paying down debt, we are increasing debt and the related interest costs on our younger generations. As the power of compound interest also works in reverse, this huge change in our budget outlook will mean $1 trillion in new interest on the debt in just the next ten years.

Therefore, as the National Committee opposed the tax cuts enacted last year, we must also oppose efforts to extend of those tax cuts beyond 2010. This tax package is estimated by the Center on Budget and Policy Priorities (CBPP) to cost of an additional $4 trillion to the general fund in the decade beginning in 2012, ironically the same decade in which we are concerned about the general fund's ability to cover the cost of interest owed to the Social Security Trust Funds. In fact, the CBPP analysis has found that the cost of the tax cuts if extended seventy–five years is more than twice as large as the long-term deficit in Social Security.

It is not that we oppose tax cuts in principle, but more a recognition that we must place our priorities in order. If meeting our future obligations to Social Security and Medicare, without having to resort to painful benefit cuts, is our number one priority, we strongly believe that all other demands on future revenues should be laid aside until that task is accomplished.

Today Social Security remains fully self-financed and is not responsible for even one penny of the federal debt. While Social Security surpluses accumulated since 1983 were intended to pay down debt held by the public to reduce future burdens related to the retirement of the baby boom, with the brief exception of the past few years this has not happened. Our recent return to spending Social Security Trust Funds on general needs marks a return to using the regressive payroll tax to finance general revenue programs.

Although we have many fundamental problems with the concept of privatization, perhaps the biggest argument against transforming part of Social Security into a system of individual retirement accounts is the tremendous cost of the transition. Although individual accounts are often presented as a way to "save" Social Security, diverting money to individual accounts actually worsens Social Security's long-term projected shortfall and requires even more revenue to maintain current promises. Indeed, funneling two percentage points of payroll out of Social Security and into private accounts more than doubles the long-term shortfall for today's promised benefits.

Of the three plans put forward by the President's Commission to Strengthen Social Security, the Social Security Actuary has found that, if implemented today, during the period from 2003-2012 plan 1 boosts the unified deficit by $1.2 trillion, plan 2 by $1.5 trillion, and plan 3 by $1.3 trillion. All three plans call for large reductions in the guaranteed benefit as great as 43 percent for those retiring in 2075, even for those who do not opt for the voluntary account. Plans 2 and 3 have been deemed "solvent" only because they call upon the general fund for trillions of dollars in general revenue transfers with no specified source. Under plan 1, program expenses exceed tax revenues as early as 2009, plan 2 by 2006, and plan 3 in 2011. Thus the "solution" proposed by private accounts only digs the hole deeper, requiring even greater cuts in defined benefits and larger demands on future revenue sources.

Further, the level of individual risk privatization would introduce to Social Security is unacceptable. Although proponents of privatization like to talk about market averages, there is no such thing as an investor who earns the market average every year. Even if individual accounts could work well for upper-income earners and earners without dependents, they would not work as well for low-income workers, people of color, disabled workers or families.

While the goal of expanding national savings is laudable, private accounts in lieu of guaranteed benefits, merely substitutes one form of retirement savings for another. We must improve incentives for younger workers to invest and save, on top of, not in place of currently promised Social Security benefits in order to expand both individual and national savings.

Solvency Alternatives

I urge you to keep the security in Social Security and focus on changes that do not dismantle its principles of shared risk. A few of the solvency alternatives (in addition to debt retirement) we have suggested Congress consider include:

1. *Supplementing payroll taxes with general revenue.* An influx of dollars from general revenues would help meet the increased demands of an aging population. If the same level of general revenue commitment contained in various private account proposals now on the table were directly applied to solvency of the current program, solvency could be extended without exposing beneficiaries to benefit cuts or the vagaries of the market.
2. *Increasing the maximum wage base.* Currently, the first $80,400 of earned income is subject to payroll tax. The base could be increased so that 90 percent of covered earnings are taxable and indexed thereafter.
3. *Expanding coverage.* Newly hired state and local workers could be brought into the Social Security program. This would provide these workers with increased retirement security, greater freedom in changing jobs and added protection from the eroding effects of inflation on income.
4. *Government investment of a portion of the trust fund reserves.* Private investment of a portion of the reserves should be seriously considered and debated. We could invest some of the reserves in an indexed selection of stocks and allow Social Security to realize a higher return on its investments, without appreciably increasing individual risk.

Chairman Nussle, Congressman Spratt, thank you for holding this important hearing today. We look forward to working with you toward a truly bipartisan effort to reinforce Social Security as the bedrock safety net for all of America's working families. I would be pleased to answer any questions you may have.