Economic Policy Institute

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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.

AMERICANS FOR TAX REFORM

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Statement of
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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 Ml 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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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.

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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 as 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 in 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 3 1.5 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 womens' 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 if 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.

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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 or 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.

The Heritage Foundation

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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.

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- 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 40 1 (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.

'Lake Research, Inc. September 1996

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

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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.

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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.**

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