Statement for White House Conference on Social Security

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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

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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.

National Association of Manufacturers

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 1 00-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.

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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?".

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:

- <u>Cost-of-Living Adiustments (COLAs)</u> 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.

- <u>Means-Testing</u> 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.

- <u>Increasing; the Retirement Age</u> 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.

- <u>Privatization of Social Security</u> 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.

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Statement by
National Caucus and Center on Black Aged, Inc.
White House Conference on Social Security
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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 Wane 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 join 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.**

National Committee to
Preserve Social Security
and Medicare

**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.

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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 on 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.

NCLR
NATIONAL COUNCIL OF LA RAZA

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 20 10, 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

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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 (5 1%) of Whites and two-fifths (44%) of other minorities."' 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.

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[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, 19984999

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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 jield 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 thecurrent 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 <u>now</u> 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 effortsand 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.

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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.

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THE NATIONAL HISPANIC COUNCIL ON AGING (NHCoA)
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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, 2 1 % of Latino households had incomes below $1 0, 000, compared with *15* % of non-latino households (Bureau of the Census, 199 1). 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 (1 7.9 %) 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 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 **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.

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Marta Sotomayor, Ph.D.

NATIONAL SILVER HAIRED 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

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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.

NTEU
The National Treasury Employees Union

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.

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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.

25 YEARS EXPANDING THE POSSIBILITIES

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 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 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.