THE FUTURE OF SOCIAL SECURITY FOR THIS GENERATION AND THE NEXT: CURRENT STATE OF PUBLIC OPINION ON THE FUTURE OF SOCIAL SECURITY

HEARING

BEFORE THE

SUBCOMMITTEE ON SOCIAL SECURITY

OF THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

ONE HUNDRED FIFTH CONGRESS

FIRST SESSION

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CONTENTS

	Page
Advisory of October 2, 1997, announcing the hearing	2

WITNESSES

Doble Research Associates, Inc., John Doble	31
Economic Security 2000, Brian F. Keane	15
National Committee to Preserve Social Security and Medicare, Martha McSteen	11
National Issues Forums Institute, Betty Knighton	31
Salisbury, Dallas L., Employee Benefit Research Institute, and American Savings Education Council	23
U.S. Junior Chamber of Commerce, Eric Seidel, Tulsa, OK, and Walter Downes, Ionia, MI	5

SUBMISSIONS FOR THE RECORD

American Association of Retired Persons, statement and attachments	59
Council for Government Reform, Kevin Kearns, statement	70
Plomis, Wilfred, Wilmington, DE, statement	71

THE FUTURE OF SOCIAL SECURITY FOR THIS GENERATION AND THE NEXT: CURRENT STATE OF PUBLIC OPINION ON THE FUTURE OF SOCIAL SECURITY

THURSDAY, OCTOBER 23, 1997

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON SOCIAL SECURITY,
Washington, DC.

The Subcommittee met, pursuant to notice, at 10:03 a.m., in room B–318, Rayburn House Office Building, Hon. Jim Bunning (Chairman of the Subcommittee) presiding.

[The advisory announcing the hearing follows:]

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

SUBCOMMITTEE ON SOCIAL SECURITY

FOR IMMEDIATE RELEASE
October 2, 1997
No. SS–12

Contact: (202) 225–9263

Bunning Announces Seventh Hearing in Series on "The Future of Social Security for this Generation and the Next"

Congressman Jim Bunning (R–KY), Chairman, Subcommittee on Social Security of the Committee on Ways and Means, today announced that the Subcommittee will hold the seventh in a series of hearings on "The Future of Social Security for this Generation and the Next." At this hearing, the Subcommittee will examine the current state of public opinion on the future of Social Security. The hearing will take place on Thursday, October 23, 1997, in room B–318 Rayburn House Office Building, beginning at 10:00 a.m.

In view of the limited time available to hear witnesses, oral testimony will be from invited witnesses only. However, any individual or organization may submit a written statement for consideration by the Committee and for inclusion in the printed record of the hearing.

BACKGROUND:

The Subcommittee's first six hearings in the series have focused on: the recommendations of the Advisory Council on Social Security; the fundamental issues to consider when evaluating reform options; the findings of the 1997 Social Security Board of Trustees; the experiences of other countries; and the views of policy experts, organizations with different generational perspectives, business and labor representatives, and Members of Congress on Social Security reform.

Social Security affects the lives of almost every American, yet public understanding of Social Security retirement, survivors, and disability programs is often limited due to complex application and eligibility requirements. Forecasts of future Social Security insolvency and suggested remedies are being discussed more and more in the media and at kitchen tables all across the country.

Increasingly, polls are being conducted to canvass the views of Americans. One example is an often cited 1994 survey which found that nearly twice as many young adults believe in UFOs than believe they will receive Social Security benefits. Beyond polling, a number of organizations, through forums and town meetings, are engaging the public in open debate about Social Security now and in the future.

In announcing the hearing, Chairman Bunning stated: "Engaging the American public is vital as we consider possible reforms to Social Security. Americans are well ahead of Washington when it comes to knowing what needs to be done. I look forward to hearing the views from the home-front on Social Security."

FOCUS OF THE HEARING:

The Subcommittee will receive the views of public forum facilitators and polling experts on what Americans are saying about the future of Social Security. Specifi-

cally, Members of the Subcommittee would like to hear from each witness regarding their findings on Americans': (1) understanding of today's Social Security programs, (2) understanding of Social Security's long-term financial insolvency, and (3) views on what changes are necessary to fix Social Security.

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Any person or organization wishing to submit a written statement for the printed record of the hearing should submit at least six (6) single-space legal-size copies of their statement, along with an IBM compatible 3.5-inch diskette in ASCII DOS Text or WordPerfect 5.1 format only, with their name, address, and hearing date noted on a label, by the close of business, Thursday, November 6, 1997, to A.L. Singleton, Chief of Staff, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. If those filing written statements wish to have their statements distributed to the press and interested public at the hearing, they may deliver 200 additional copies for this purpose to the Subcommittee on Social Security office, room B–316 Rayburn House Office Building, at least one hour before the hearing begins.

FORMATTING REQUIREMENTS:

Each statement presented for printing to the Committee by a witness, any written statement or exhibit submitted for the printed record or any written comments in response to a request for written comments must conform to the guidelines listed below. Any statement or exhibit not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All statements and any accompanying exhibits for printing must be typed in single space on legal-size paper and may not exceed a total of 10 pages including attachments. At the same time written statements are submitted to the Committee, witnesses are now requested to submit their statements on an IBM compatible 3.5-inch diskette in ASCII DOS Text or WordPerfect 5.1 format. Witnesses are advised that the Committee will rely on electronic submissions for printing the official hearing record.

2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.

3. A witness appearing at a public hearing, or submitting a statement for the record of a public hearing, or submitting written comments in response to a published request for comments by the Committee, must include on his statement or submission a list of all clients, persons, or organizations on whose behalf the witness appears.

4. A supplemental sheet must accompany each statement listing the name, full address, a telephone number where the witness or the designated representative may be reached and a topical outline or summary of the comments and recommendations in the full statement. This supplemental sheet will not be included in the printed record.

The above restrictions and limitations apply only to material being submitted for printing. Statements and exhibits or supplementary material submitted solely for distribution to the Members, the press and the public during the course of a public hearing may be submitted in other forms.

Note: All Committee advisories and news releases are available on the World Wide Web at 'HTTP://WWW.HOUSE.GOV/WAYS MEANS/'.

The Committee seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202–225–1721 or 202–226–3411 TTD/TTY in advance of the event (four business days notice is requested). Questions with regard to special accommodation needs in general (including availability of Committee materials in alternative formats) may be directed to the Committee as noted above.

Chairman BUNNING. The Subcommittee will come to order.

Today marks the seventh hearing in a series on the future of Social Security for this generation and the next. During this hearing, we will focus on the current state of public opinion on the future of Social Security.

Social Security affects the lives of nearly every American. Each of us has a stake in the future of this vital program. Yet public understanding of Social Security retirement, survivors and disability programs is often limited, due to complex application and eligibility requirements. Increased public understanding of the design and purpose of Social Security today must not be lost in the debate about Social Security tomorrow.

Forecasts of future Social Security insolvencies and suggested fixes are gradually making their way out of the beltway and onto kitchen tables all over the country. Real Social Security reform cannot take place without Americans weighing in.

Today we will hear the views of public forum facilitator and polling experts on what Americans are saying about the future of Social Security. The Subcommittee will examine the results of three comprehensive surveys. These surveys have focused on how the public views Social Security for today and tomorrow, Social Security privatization and workers' and retirees' attitudes, preparation and expectations regarding retirement.

Beyond polling, a number of organizations, through forums and town meetings are engaging the public in open debate about Social Security now and in the future. Three of these organizations join us today to tell us the results of their efforts.

Many of you may have noticed the Washington Post-ABC News poll this week which shows that 88 percent of all Americans believe that making Social Security financially sound should be a major goal for government to accomplish. Americans are often well ahead of Washington—that's to say the least—[Laughter.]

When it comes to knowing what has to be done.

I look forward to hearing the views from the home front on Social Security from our panelists today.

In the interest of time, it is our practice to dispense with opening statements, except from the Ranking Democrat Member. All Members are welcome to submit statements for the record. I yield to Congresswoman Barbara Kennelly for any statement she wishes to make.

Mrs. KENNELLY. Thank you, Mr. Chairman.

I am pleased that we have here with us today a number of organizations that have been holding forums around the country, determining how individuals feel about Social Security, and educating Americans about the choices that are before us.

One of the biggest lessons to be learned from today's testimony is that the discussion about Social Security has only just begun. Many Americans, especially young people, are not familiar with the features of Social Security and its financing. They appreciate the program for what it's done for their parents and their grandparents. But they're not sure that it will achieve the same thing for them. And this is something that we really have to address.

Most Americans know that Social Security faces difficulties in the future. But they are not sure about the reasons for these dif-

ficulties. Very few Americans are familiar with the options for change and the impact of these options on individual retirement security.

This Subcommittee has held seven hearings this year in furtherance of the education process, and I thank the Chairman for doing this. We can see at this point, at the seventh hearing, how important these hearings are, and how important it is that we continue to educate the public about the importance of the issue before us.

Clearly, more needs to be done before the American people are ready to make a decision. I, for one, believe that the earlier we make the decision, the better off we will be. That is why I am pleased that the groups before us today are educating the American public about the choices available and helping us to move the debate forward.

I thank the panel for being with us today.

Chairman BUNNING. Thank you, Barbara.

This morning, we'll hear from Eric Seidel, who's president of the U.S. Junior Chamber of Commerce, from Tulsa, Oklahoma. He's accompanied by Walter Downes, government involvement chairman, of the U.S. Junior Chamber of Commerce, from Ionia, Michigan.

Martha McSteen is president of the National Committee to Preserve Social Security and Medicare. She is accompanied by Guy Molyneux, vice president of Peter D. Hart Research Associates.

Brian Keane is executive director of Economic Security 2000. Dallas Salisbury is president of Employee Benefit Research Institute.

Betty Knighton is a moderator for the National Issues Forums, from Charleston, West Virginia, and John Doble is president of Doble Research Associates, Inc., in Englewood Cliffs, New Jersey. They are joined today by a number of fellow moderators from the National Issues Forums.

We are sorry to learn that Madelyn Hochstein, president of DYG, Inc., in Danbury, Connecticut, who was scheduled to testify this morning, became ill and is unable to join us today.

Mr. Seidel, you may begin.

STATEMENT OF ERIC SEIDEL, PRESIDENT, U.S. JUNIOR CHAMBER OF COMMERCE, TULSA, OKLAHOMA; ACCOMPANIED BY WALTER DOWNES, GOVERNMENT INVOLVEMENT CHAIRMAN, U.S. JUNIOR CHAMBER OF COMMERCE, IONIA, MICHIGAN

Mr. SEIDEL. Good morning, Chairman Bunning and Members of the Subcommittee.

My name is Eric Seidel, and I'm the 78th president of the U.S. Junior Chamber of Commerce. The Junior Chamber, or Jaycees, as we're commonly known, is a young person's leadership training organization made up of 115,000 members in 2,500 communities across America. Historically, the Junior Chamber has undertaken national programs that have addressed issues of importance to Americans.

For example, the Junior Chamber was one of the first national organizations to call for a mandatory draft during World War II, even though the draft decimated the ranks of our organization. Since our beginnings, we've been involved in get out the vote cam-

paigns, and we've encouraged our members to get involved in governmental issues. We are a nonpartisan organization.

Most recently, our membership indicated to the leadership of the U.S. Junior Chamber that they were concerned with the future solvency of the Social Security Program. While this issue affects all Americans, it particularly affects young Americans who are unlikely to see a benefit available to them upon retirement, given the current accepted projections for the existing program.

In March 1996, the U.S. Junior Chamber adopted an external resolution calling for the development of a responsible solution to the future economic solvency of the Social Security system. This resolution allowed us to formulate a national program for our local chapters to utilize to educate and activate grassroots America about the issue.

The program that the U.S. Junior Chamber developed is the Social Security reform townhall meeting program. After consulting with many different experts in the field of Social Security reform, including the Social Security Administration, the CATO Institute, Economic Security 2000, the AARP and elected leadership of the U.S. House and Senate, we developed a townhall meeting how-to guide.

That manual allows local chapters to run this program in their communities. The format of our townhall meetings follows a standard outline. The first part of the meeting presents participants with information regarding the history of the Social Security Program, how the program exists today, and what the future holds for the program, given several different proposed reform solutions. All information presented during this part of the program was developed using generally agreed upon facts gleaned from our relationships that we have built with other interested organizations, including the Social Security Administration.

The second part of the meeting is a panel presentation by invited guests to assist with presenting the factual information. At each of our townhall meetings, representatives from the Social Security Administration have been present. We strive to represent a nonpartisan, factual presentation with the invited speakers.

Once the formal presentations are complete, participants in the audience are free to ask questions to the presenter to ensure that each individual has a complete understanding of all the information presented. Once the question and answer period is complete, the now educated participants are asked to complete a survey regarding their feelings on the Social Security Program and the proposed reform solutions.

After holding over 75 meetings in 25 States during the period of June 1996 to June 1997, we would like to present to you our findings from our grassroots survey of the American people. Copies of the completed report are included for the record, and are available for your review.

Our townhall meetings attracted a variety of Americans. Out of the 1,485 survey respondents, 46 percent were female and 54 percent were male. Seventy-seven percent were under the age of 45, and 23 percent over the age of 45. Eighty-one percent of those surveyed were employed, while 19 percent were either retired or un-

employed. Individuals of varying income levels completed our survey.

Overwhelmingly, 79 percent of the survey respondents think the Social Security Program needs radical or major change. Of those respondents between 55 and 64, 70 percent said the program needs radical or major change.

These are individuals who are about to enter the system. Seventy-one percent of the survey respondents opposed or strongly opposed raising payroll taxes.

Interestingly, even older Americans feel this way. For example, 66 percent of those polled between the ages of 55 and 64 were against raising payroll taxes. When asked if benefits should be reduced for seniors who earn more than $100,000 a year, 68 percent of the respondents either strongly favored or favored this option.

Even individuals who have reached retirement age, 60 percent of those surveyed over age 65 agree. Sixty-eight percent of the respondents felt that the current benefit level should be maintained for people currently in or about to enter the system.

The most interesting finding, however, is that 67 percent of those surveyed thought that there should be implementation of a program that would allow individuals to place their Social Security contributions from their current wages into their own personal retirement account, and that account would be required to be maintained for them for retirement purposes only. Young and old agreed on this.

I strongly urge you to review the findings of our survey. We feel that our findings represent the true feelings of grassroots America. We encourage Congress to act and act soon to strengthen and solidify the program that affects each and every American, so that it continues well into the 21st century and beyond.

Thank you for your invitation to testify today and for your attention. I would welcome any questions that you might have.

[The prepared statement follows. Attachments are being retained in the Committee files.]

Statement of Eric Seidel, President, U.S. Junior Chamber of Commerce, Tulsa, Oklahoma

Good Morning, Chairman Bunning and members of the subcommittee. My name is Eric Seidel, and I am the 78th President of The United States Junior Chamber of Commerce. The Junior Chamber of Commerce, or Jaycees, as we are known, is a young persons' leadership training organization made up of 115,000 members in 2,500 chapters across the country.

Historically, the Junior Chamber has undertaken national programs that have addressed issues of importance to Americans. For example, the Junior Chamber was one of the first national organizations to call for a mandatory draft for World War II, even though the draft decimated the ranks of our organization. Since our beginnings, we have involved our members in "Get Out the Vote" campaigns, and have encouraged our members to be involved in governmental issues. We are a nonpartisan organization.

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The program that the U.S. Junior Chamber developed is the Social Security Reform Town Hall Meeting program. After consulting with many different experts in the field of Social Security reform, including the Social Security Administration, the CATO Institute, Economic Security 2000, AARP, and elected leadership of the United States House and Senate, we developed a "Town Hall Meeting How To" manual that local Jaycee chapters could utilize to run this program.

The format of our town hall meetings follows a standard outline. The first part of the meeting presents participants with information regarding history of the Social Security program, how the program exists today, and what the future holds for the program given several different proposed reform solutions. All information presented during this part of the program was developed using generally agreed upon facts gleaned from our relationships that we had built with other interested organizations including the Social Security Administration. The second part of the meeting is a panel presentation by invited guests to assist with presenting the factual information. At each one of our town hall meetings, representatives from the Social Security Administration are present. We strive to represent a non partisan, factual presentation with invited speakers.

Once the formal presentations are complete, participants in the audience are free to question the presenters to ensure each individual has a complete understanding of all information presented. Once the question and answer period is complete, the now educated participants are asked to complete a survey regarding their feelings on the Social Security program and proposed reform solutions.

After holding over 75 meetings in 25 states during the period of June, 1996, to June, 1997, we would like to present to you our findings from our grassroots survey of the American people. Copies of the complete report are included for the record and are available for your review.

Our town hall meetings attracted a variety of Americans. Out of 1,485 survey respondents, 46 percent were female and 54 percent male. 77 percent were under the age of 45 and 23 percent over age 45. 81 percent of those surveyed were employed while 19 percent were either retired or unemployed. Individuals of varying income levels completed our survey.

Overwhelmingly, 79 percent of survey respondents think the Social Security program needs radical or major change. Of those respondents between 55 and 64, 70 percent said that the program needs radical or major change. These are individuals who are about to enter the system. 71 percent of survey respondents oppose or strongly oppose raising payroll taxes. Interestingly, even older Americans feel this way, for example, 66 percent of those polled between the ages of 55 and 64 were against raising payroll taxes.

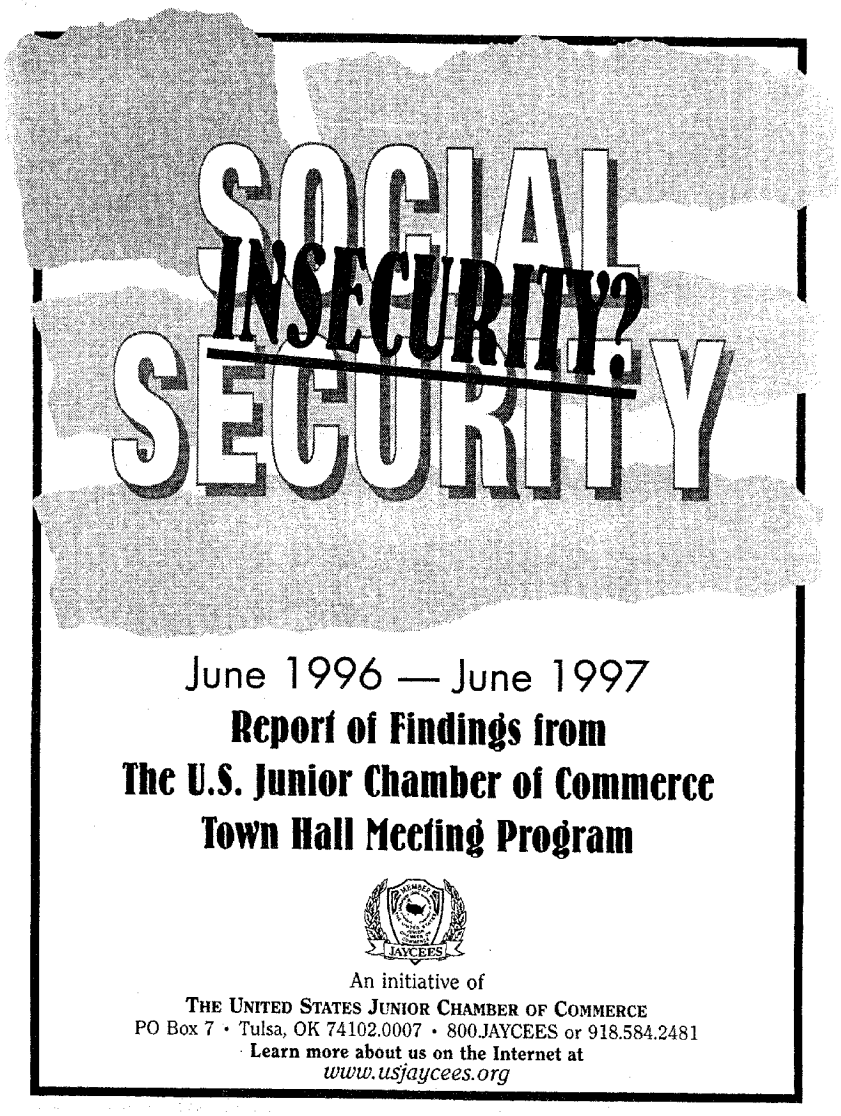
When asked if benefits should be reduced for seniors who earn more than $100,000 a year, 68 percent of respondents either strongly favor or favor this option. Even individuals who have reached retirement age, 60 percent of those surveyed over age 65, agreed. 68 percent of respondents felt that current benefit levels should be maintained for people currently in or about to enter the system.

Of the most interest, however, is that 76 percent of those surveyed felt that there should be implementation of a program that would allow individuals to place their Social Security contributions from their current wages in their own personal retirement account and that account would be required to be maintained for retirement only. Young and old agreed on this item. I strongly encourage you to review our survey findings. We feel our findings represent the true feelings of grassroots America. We encourage Congress to act and act soon to strengthen and solidify a program that affects each and every American so that it continues well into the 21st Century and beyond.

Thank you for your invitation to testify today, and for your attention. I would welcome any questions you may have at this time.

The United States Junior Chamber of Commerce
TOWN HALL MEETING LOCATIONS
June 1996 – June 1997

Newark, DE
Tucson, AZ
Las Vegas, NV
Gillette, WY
Midlothian, IL
Myrtle Beach, SC
Charlotte, NC
Raleigh, NC
Greensboro, NC
Madison, WV
Lexington, KY
Toledo, OH
Schaumberg, IL
Ionia, MI
Goshen, IN
Chattanooga, TN
Washington, DC
Dundee, MI
Bozeman, MT
Mt. Pleasant, SC
Joplin, MO
Jacksonville, FL
Cocoa, FL
Tampa, FL
Jefferson City, MO
Riverside, IL
Wausau, WI
Lombard, IL
Springfield, IL
Richmond, VA
Waldorf, MD
Stillwater, OK
Wheeling, IL
Arlington, VA
Blue Springs, KS
Lafayette, IN
Indianapolis, IN
Farmington, MI
Oregon Bay, OH
Greenville, NC
Wilmington, NC
Bixby, OK
Summerfield, IL
Decator, IL
Dunn, NC
Lombard, IL
Huntington, IN
Morehead City, NC
Coats, NC
Statesville, NC
Lawrenceburg, IN
Burlington, NC
Cleveland, OH
Cary, NC
Louisville, KY
San Diego, CA
Henderson, KY
Tulsa, OK
Boone Co. KY
Mocksville, NC
Grayson Co. KY
Payette, ID
Rockford, IL
Danville, IL
Palatine, IL
Madison Heights, MI
Harrisburg, PA
Aurora, IN
Lanesville, IN
Mt. Vernon, IN
Ft. Wayne, IN
Lansing, IL
Honolulu, HI
Pierre, SD
Quincy, IL
Gaithersburg, MD



Chairman BUNNING. We will hold questions until we finish the whole panel.

Ms. McSteen.

STATEMENT OF MARTHA MCSTEEN, PRESIDENT, NATIONAL COMMITTEE TO PRESERVE SOCIAL SECURITY AND MEDICARE; ACCOMPANIED BY GUY MOLYNEUX, VICE PRESIDENT, PETER D. HART RESEARCH ASSOCIATES

Ms. MCSTEEN. Mr. Chairman and Members of the Subcommittee, I'm Martha McSteen, president of the National Committee to Preserve Social Security and Medicare. And I'm pleased to be here today to testify on behalf of the 5½ million National Committee members.

The National Committee is committed to advocating for a strong and viable Social Security Program for current and future generations. Engaging the public in the debate over the future of Social Security is critical. Toward this goal, the National Committee commissioned Peter Hart Research Associates to conduct a telephone survey on public attitudes toward Social Security.

The survey describes a plan for partial privatization of Social Security for future retirees, modeled on the personal security accounts proposal put forward last year by five members of the Social Security Advisory Council. References to privatization or the privatization plan throughout the discussion refer to this described plan.

For purposes of this testimony, I will focus on the results of randomly selected members of the general public. The public is aware of the funding shortfall of Social Security, and the support for fixing Social Security remains strong. The polls show that 60 percent of all nonretired Americans and 72 percent of Generation Xers believe that they will receive no benefits or much lower benefits when they retire than the current structure provides.

However, the public's understanding of the projected financial shortfall of Social Security does not translate into widespread support for changing Social Security to a system of partially privatized individual accounts. Indeed, by a 2 to 1 margin, every age group believes that the risk and cost of a partially privatized system of individual accounts outweighs the benefits.

Second, when risk and cost of partially privatized individual accounts is explained, the public rejects the concept. A solid two-thirds of adults believe that Congress "should fix" Social Security by strengthening its financial condition, so that future retirees will be guaranteed a reasonable level of benefits. Just 28 percent endorse the competing view that Congress "should replace" Social Security by allowing people to invest in Social Security contributions in the stock market, so people can manage their own investments.

While seniors are especially strong in this preference, 80 percent to 13 percent, there is at least a 2 to 1 majority for fixing Social Security over replacing it in every age cohort. Even Generation Xers, who worry the most that Social Security will not be there for them, say by 65 percent to 32 percent that strengthening the system is the right way to go.

Americans of all ages voice opposition to privatization. Although young people, ages 18 to 34, are more supportive than average, they nonetheless reject privatization by 53 percent to 41 percent.

Privatization faces serious hurdles, and the public will demand significant safeguards not found in any current privatization plan. As the debate progresses, privatization faces serious hurdles. When

presented with a list of taxes individuals pay, the Social Security tax is chosen first by more respondents as the tax that is most fair and the one they are most willing to pay. Conversely, privatization presents a scenario where the government will go beyond taxation and mandate private savings.

A startling 84 percent say that it is essential or very important that participation be voluntary, rather than compulsory. A solid 75 percent polled said that it is essential or very important that if the government requires people to make stock investments, then the government should insure the private accounts, as it does with bank accounts through FDIC, so people cannot lose their savings.

Americans want to fix Social Security. Opposition to privatization does not mean that Americans are resistant to any change in the system. On the contrary, their concern about future benefits leads them to support reasonable and measured change designed to strengthen Social Security.

Social Security's funding would be strengthened through a payroll tax increase, but a much smaller one than under the privatization plan is looked at. Over time, benefits would also be slightly reduced as the public receives it.

In conclusion, Mr. Chairman, Members of the Subcommittee, Social Security is one of this country's greatest success stories. Its great success is reflected in the overwhelming public support for the program shown in poll after poll. Clearly, Social Security must change to meet the challenges of the next century. The National Committee believes that Americans of all ages want and will support program changes necessary to ensure the solvency of Social Security.

We look forward to working with Congress toward balanced reform, of ensuring the solvency of the Social Security Program. Thank you.

[The prepared statement follows:]

Statement of Martha McSteen, President, National Committee to Preserve Social Security and Medicare

Mr. Chairman, and Members of the Subcommittee, I am Martha McSteen, President of the National Committee to Preserve Social Security and Medicare. I am pleased to be here today to testify on behalf of the 5.5 million members and supporters of the National Committee. I am accompanied by Guy Molyneux, Vice President of Peter D. Hart Research Associates.

As the nation's second largest senior organization, the National Committee is committed to advocating for a strong and viable Social Security program for current and future generations. Engaging the public in the debate over the future of Social Security is critical. The process of gauging public priorities related to Social Security is an essential first step. Toward this goal, the National Committee commissioned Peter D. Hart Research Associates to conduct a telephone survey in May 1997 on public attitudes toward Social Security as well as privatization of Social Security.

The survey describes a plan for partial privatization of Social Security for future retirees, modeled on the "Personal Security Accounts" proposal put forward last year by five members of the Social Security Advisory Council. This particular plan was selected both because it has received widespread attention to date, including analysis by SSA Actuaries, and because it is a less radical approach than the full privatization advocated by the Cato Institute and some others, and so provides the concept of privatization with its fairest chance of demonstrating support. References to privatization or the privatization plan throughout this discussion refer to this described plan. For purposes of this testimony I will focus on the results of randomly selected members of the general public, although we results of the survey of National Committee membership is also available today.

THE PUBLIC IS AWARE OF FUNDING SHORTFALL OF SOCIAL SECURITY/SUPPORT FOR FIXING SOCIAL SECURITY REMAINS STRONG

The public is well aware that Social Security faces a funding shortfall in the next century. Our poll showed that 60% of all non-retired Americans, and 72% of Generation Xers believe that they will receive no benefits or much lower benefits when they retire than the current structure provides. While the funding difficulties may seem greater to some Americans than they in reality are, the fact remains that the public is aware of the difficulties.

But, as you will see from our poll results, public understanding of the financial difficulties of Social Security does not translate into lack of support for the Social Security program. The Social Security system continues to enjoy public support today that is both strong and broad. By four to one, Americans believe that the government should spend more, rather than less, on Social Security, and by an even greater seven to one margin, they oppose cutting Social Security spending for the purpose of deficit reduction. This support for Social Security extends across all age cohorts, including Generation X.

Further, the public's understanding of the projected financial shortfall of Social Security does not translate into widespread support for changing Social Security to a system of partially privatized individual accounts. Indeed, by a 2 to 1 margin, every age group believes that the risks and costs of a partially privatized system of individual accounts outweighs the benefits.

THE NOTION OF GENERATIONAL RESENTMENT OF SOCIAL SECURITY IS A MYTH

Our poll demonstrates that the notion of generational resentment of Social Security is a myth. By a margin of 85% to 12%, Americans reject cutting spending on Social Security for deficit reduction. Sixty one percent of working Americans believe that current Social Security benefits are too low and 34% believe they are about right and only 8% of adults believe that current benefits are too high. The 18 to 34 age group believes current benefits are too low by a similar margin—62% believe benefits are too low and 6% believe they are too high.

Interestingly, seniors themselves are more likely than are working age adults to feel that current benefits are about right, as opposed to being too low (like younger people, they reject the view that benefits are too high.) Similarly, senior citizens voice less support than do those in all other age groups for increasing Social Security spending. Just as the notion of young people's objection to seniors benefits should be rejected as myth, so too should we abandon the image of the "greedy geezer"—an older generation selfishly seeking benefits with no regard for the cost to others.

WHEN RISKS AND COSTS OF PARTIALLY PRIVATIZED INDIVIDUAL ACCOUNTS IS EXPLAINED, PUBLIC REJECTS CONCEPT

By now, we have all heard the expression coined by Frank Luntz that more young people believe in UFOs than in Social Security. Those who support privatization of Social Security use this particular survey finding to argue that young people prefer to replace Social Security with a privatized, or partially privatized system. However, in our poll, a solid two-thirds of adults believe that Congress "should fix Social Security by strengthening its financial condition, so that future retirees will be guaranteed a reasonable level of benefits." Just 28% endorse the competing view that Congress "should replace Social Security by allowing people to invest their Social Security contributions in the stock market, so people can manage their own investments." While seniors are especially strong in this preference (80% to 13%) there is at least a two to one majority for fixing Social Security over replacing it in every age cohort. Even Generation Xers, who worry the most that Social Security will not be there for them, say by 65% to 32% that strengthening the system is the right way to go.

In our survey, the public's initial reaction to the privatization proposal is somewhat mixed, but decidedly more negative than positive. While three in ten Americans initially have a favorable reaction to the proposal half again as many react unfavorably from the outset. Current Social Security beneficiaries reject privatization especially strongly, but negative responses out number positive ones among non-beneficiaries (and among all age cohorts) as well. Intensity of sentiment also lies clearly on the negative side, as nearly three times as many people feel very unfavorable toward the plan as feel very favorable. Upon hearing the initial description, Social Security beneficiaries reject privatization fairly definitively 59% unfavorable, just 24% favorable, while non-beneficiaries are unfavorable by a more narrow 41% to 33%.

Americans are very concerned about the inherent risk involved in individual investment accounts. When asked to weigh the advantage of potentially higher rates of return that stocks could potentially bring against the risk of losing money, a solid 59% say that the risk outweighs the potential benefit (33% believe that the benefits are greater than the risk). The risks of stock investments is the most frequently voiced concern about privatization in an open-ended question about the plan.

The public also believes, by an even larger margin of 62% to 23% that the "transition costs" of the plan outweigh the benefits it might bring. The survey question identified these costs as higher payroll taxes and an increased federal deficit. While the open-ended responses indicate that the public is probably not now aware of these costs, the survey demonstrates that they are a very considerable vulnerability for privatization plans. After considering the trade-offs, Americans reject the privatization plan by a decisive 59% to 35%. Fully 36% strongly oppose the plan, while only 11% are strongly in favor. Those people who were initially neutral to the idea end up in opposition by a ratio of five to three (52% to 31%.)

Americans of all ages voice opposition to privatization. Although young people (age 18 to 34) are more supportive than average, they nonetheless reject privatization by 53% to 41%.

Nonretired people who expect Social Security to pay them benefits at or near current levels when they retire oppose privatization by 59% to 35%. Those who do not believe that Social Security will pay out any benefits when they retire are fairly divided, with 45% in favor and 50% opposed. People who expect major reductions in future benefits—those who make up a kind of "swing" audience on this issue—firmly oppose privatization by 62% to 33%. This is an important finding as it suggests that only those people who expect to receive no benefits whatsoever—an alarmist view—constitute a significant audience for privatization.

Privatization Faces Serious Hurdles and The Public Will Demand Significant Safeguards Not Found in Any Current Privatization Plan

As the debate progresses, privatization faces serious hurdles. When presented with a list of taxes individuals pay, the Social Security tax is chosen first by more respondents as the tax that is the most fair and the one they are most willing to pay. Conversely, privatization presents a scenario where the government will go beyond taxation and mandate private savings. A startling 84% say that it is essential or very important that participation be voluntary rather than compulsory.

A 77% majority feel that it is essential or very important that the government "carefully regulate the management of the stock investment accounts...to protect workers and retirees against fraudulent investment schemes."

If the government mandates private investment, a majority of the public will demand to be insured against loss. A solid 75% polled said that it is essential or very important that "if the government requires people to make the stock investments, then the government should insure the private accounts, as it does with bank accounts through the FDIC, so people cannot lose their savings."

Eighty one percent of those polled said that it was essential or very important that the guaranteed monthly Social Security benefit should provide an income at least equal to that at the poverty line. Privatization plans, such as the PSA plan, provide guaranteed benefits well below the poverty line.

Americans Want to Fix Social Security

Opposition to privatization does not mean that Americans are resistant to any change in the system. On the contrary, their concern about future benefits leads them to support reasonable and measured change designed to strengthen Social Security. By 71% to 23%, the public favors a hypothetical alternative plan described as follows: "Social Security's funding would be strengthened through a payroll tax increase, but a much smaller one than under the privatization plan. Over time, benefits would also be slightly reduced..." While the National Committee has not endorsed a payroll tax increase, it is important to note the high level of support for a balanced approach of revenue increases and benefit reductions over time, as necessary to secure the stability of the trust funds.

Conclusion

Mr. Chairman, Members of the Subcommittee, Social Security is one of this country's greatest success stories. Its great success is reflected in the overwhelming public support for the program shown in poll after poll. Clearly, Social Security must change to meet the challenges of the next century. The National Committee believes that Americans of all ages want and will support program changes necessary to in-

sure the solvency of Social Security. We look forward to working with Congress toward balanced reform for insuring the solvency of the Social Security program.

Chairman BUNNING. Thank you, Ms. McSteen.

Mr. Keane.

STATEMENT OF BRIAN F. KEANE, EXECUTIVE DIRECTOR, ECONOMIC SECURITY 2000

Mr. KEANE. Mr. Chairman, distinguished Members of the Subcommittee, good morning.

I'd like to thank you for the opportunity to come before you today to discuss and share with you the views of the American people that we have encountered during our grassroots efforts to save and reform Social Security. My name is Brian Keane. I am executive director of Economic Security 2000. We are a nationwide, nonpartisan, grassroots organization dedicated to saving and reforming Social Security.

Our goal is to educate the American people about the challenges currently faced by Social Security and the opportunities we have for reform. We see reform of Social Security not only as a means to create retirement security for millions of Americans, but, and perhaps more importantly, as a way to create wealth for those middle- and low-income workers who currently have no such opportunity.

Initially, Economic Security 2000 president Sam Beard had no intention of engaging in a discussion about Social Security at all. In fact, in setting out to find ways to mend the growing gap between the rich and the poor, a gap wider than in any other industrialized nation, Mr. Beard realized that reforming Social Security was an opportunity, a blessing of sorts, to promote economic stability, security, and opportunity for all Americans, to actually help close the gap between the rich and the poor.

There's no finer example of the lessons to be learned than that of one of our board members, Oseola McCarty. Now 88 years old, Ms. McCarty spent her entire life laundering shirts, never earning more than $9,000 per year. However, upon her retirement, she became a celebrity when she donated $150,000 for a scholarship program at the University of Mississippi.

How is that possible? How can a woman living in poverty her entire life amass such wealth? In her words, it was the magic of compounding interest. She put away a few cents a week, sometimes a few dollars. And compounding interest did the rest.

This is amazing. A woman who spent her entire life working in poverty was able to retire as one of the top 1 percent of wealthy Americans.

Ms. McCarty had no children. If she had, however, they would today be enjoying the very wealth which she created, breaking the cycle of poverty which had so pervaded her own life.

The lesson here is clear. Mr. Chairman, there must be a way to make Oseola McCarty's story work for every American. In fact, there is. The solution rests in long-term Social Security reform.

Economic Security 2000, ES 2000, along with our cochairs, Senator Bob Kerry, Congressman Jim Kolbe and Congressman Charlie

Stenholm, see the need to redefine the Social Security debate. The severe gap in income and wealth in this country between the relative few who can save and the many who simply cannot is what brings ES 2000 to this table today.

Economic Security 2000 has chapters in 26 States across the country. Our thousands of activists and volunteers include Democrats, Republicans, Independents, seniors, baby boomers and Generation Xers. As such, we are uniquely qualified to provide the texture of the Social Security discussion. We believe that Social Security can no longer afford to be seen in a vacuum. It cannot be a stand-alone program.

Indeed, Social Security can no longer be seen as just one leg of the proverbial three-legged retirement stool. From here on out, Social Security must be seen as a way to create savings and wealth, to help create a higher standard of living, and at the same time, ensure real retirement security for every American.

Our grassroots efforts reveal that the solution rests in reforming this vital social program for the long term, in preserving the Roosevelt safety net, and in adding a savings component so every American can have the opportunity to create wealth over a working lifetime. Let me repeat that, in case some did not hear. Preserve, keep, retain the essential safety net against poverty and retirement, and add savings so every American can achieve real retirement security. So every American can walk in the footsteps of Oseola McCarty.

In closing, Mr. Chairman, and to answer the Subcommittee's three questions first, we have found a fundamental lack of knowledge about how Social Security works. In fact, many people actually believe that there already is a Social Security account with their name on it.

Second, we have found that there is little or no confidence that Social Security will be there in the long term. And third, we have found an overwhelming commitment to retain the vital safety net against poverty in retirement.

To emphasize our main point, however, we have found that American families are struggling between a need to provide for their families today and to save for tomorrow. They are struggling with how to balance today's realities with tomorrow's hopes. This struggle can be overcome, Mr. Chairman, by reforming Social Security. Through Social Security reform, we can enable families to save for their own retirements and their children's futures.

In short, Oseola McCarty and her struggle is where the Social Security debate needs to be focused. This is the idea that resonates with the American people.

Thank you for your time today, Mr. Chairman. I would be happy to answer any questions you may have regarding my testimony.

[The prepared statement follows:]

Statement of Brian F. Keane, Executive Director, Economic Security 2000

Mr. Chairman, distinguished Members of the Subcommittee:

Good morning. My name is Brian Keane. I am Executive Director of Economic Security 2000. ES 2000 is the nation's first nonpartisan, grassroots, educational organization dedicated to saving and reforming Social Security.

First, I'd to thank you for your invitation to address the Subcommittee about the current state of public opinion on the future of Social Security. Clearly, any attempts to reform the nation's most important and popular social program would be

superficial, hallow and incomplete without gauging the American people's general understanding of both Social Security's workings and its long-term financial insolvency. Moreover, it is essential that the American people are educated and informed, to the fullest extent possible, about all facets of Social Security and the various models for its reform. Social Security is an issue which is near and dear to all Americans. Its legacy speaks to the very values we as a nation hold dear: a democratic people coming together and using government to provide for the common good. Social Security is a good and necessary program. Our obligation today is to preserve it—and perfect it—for generations to come. And, I would suggest that this obligation entails not only saving America's safety net against poverty in retirement, but also extending our national commitment toward the goal of creating wealth for those Americans currently unable to do so.

In keeping with disclosure requirements of the U.S. House of Representatives, let me state that I appear before you representing solely Economic Security 2000, and no other client, person or organization. Economic Security 2000 is a non-profit corporation and does not receive any money from the government of any kind.

I have submitted my full statement to the Subcommittee, which I ask be made part of the hearing record.

Based on my more than eight years of work in both public policy here on Capitol Hill and in grassroots citizen outreach, I believe that the hearings you are conducting on the subject of Social Security reform could not be more timely or more necessary. ES 2000 finds that today, most Americans are treading water financially, are beleaguered by the very high costs of attaining a decent retirement, and are finding themselves stuck without the opportunities to save and invest for a secure retirement. Moreover, far too many Americans are finding it increasingly difficult, if not impossible, to build a financial nest egg to pass down to their children and grandchildren that would ensure them a higher standard of living and greater financial independence and security.

REDEFINING THE SOCIAL SECURITY DEBATE

Concerns about the near- and long-term financial health and sustainability of the nation's most vital social program are very real; indeed, President Clinton on more than one occasion has listed long-term Social Security reform as second on his list of five major priorities before leaving office. But with the dynamics of the Social Security program affecting the lives of just about every American, both during their working lifetimes and especially in retirement, it would be myopic and inappropriate to address the future of Social Security outside the context of overall retirement security and the American people's economic opportunities and financial health leading up to eventual retirement. To do so, I suggest, would be like trying to core an apple without piercing the skin.

It is important to note that prior to founding our organization just over two years ago, ES 2000 President Sam Beard had no intention at all of engaging in a discussion about Social Security. A self-styled liberal Democrat who worked for the late Senator Robert Kennedy on economic renewal programs for the low-income community Bedford-Stuyvesant in Brooklyn, New York, Sam set out to find ways to mend the growing gap in income a wealth in the United States. His goal: to expand economic opportunity across the nation, especially for those middle- and lower-income families who are cut out of the American dream. It is this huge gap between the rich and the poor in our country that motivated Sam. And so, after intensive study and consultation with economic experts, and struggling workers and families, it came as somewhat of an epiphany to Sam that the way to close this gap was through long-term Social Security reform. The financial and demographic problems of Social Security notwithstanding, Sam realized that reforming Social Security was an opportunity, a blessing of sorts, to promote economic stability, security and opportunity for all Americans.

As you are well aware, Social Security was designed as a safety net by President Franklin Roosevelt: part three of a so-called "three-legged retirement stool," with the other two legs being personal savings and pension income. By Roosevelt's own design and intentions, the need to save and invest were not only crucial elements to a secure retirement, they were to be the primary vehicles by which American workers could build wealth over time, and thus provide a secure retirement. Social Security is about retirement security, and the American people's economic opportunities—and lack thereof—to save and create wealth during their working lifetimes are directly related to the future of the program and how we ought to think about reforming the system.

There's no finer example of the lessons to be learned in this debate than that of Oseola McCarty, a retired laundry woman who ES 2000 is proud to have on its

Board of Governors. Now 88 years old, Ms. McCarty became a celebrity two years ago when she donated $150,000 for a scholarship program at the University of Southern Mississippi. She accumulated this nest egg and significantly more on earnings that never exceeded $9,000 in any year. How? In her words, "It was the magic of compounding interest." Over her 76-year working lifetime, starting at age 8, a woman at the local bank helped her put away a few cents a week, sometimes a few dollars, and compounding interest did the rest. The picture here is clear: a woman who lived her entire working life in poverty was able to retire not just as part of America's middle class, but as one of the top 1% of wealthy Americans.

Mr. Chairman and members of the Subcommittee, there must be a way to make Oseola McCarty's story work for every American.

We submit to you that there is. And so do our distinguished Honorary Co-Chairs Senator Bob Kerrey (D–NE), Congressman Jim Kolbe (R–AZ) and Representative Charles Stenholm (D–TX), all of whom have been committed supporters of ES 2000's mission and principles of reform. The solution rests in Social Security. Yes, we can create a nation of Oseola McCarty's through Social Security reform.

Thus, ES 2000 sees the need to redefine the Social Security debate. The financial and demographic problems facing Social Security notwithstanding, the gap in income and wealth in this country—between the relative few who can save and create wealth and the many who cannot—is a continuous and growing source of anxiety and frustration for millions of Americans. And this gap largely constitutes most Americans' sense of retirement insecurity. With so many in this country treading water financially, it is wrong, not to say dangerous to our democracy, to keep them from owning a piece of America's economic success, to keep them from letting their money go to work for them.

Polling and American Public Opinion

ES 2000 is particularly pleased that the Subcommittee requested input from public education and outreach organizations such as ours in addition to polling organizations. It is important to note that public opinion is not synonymous with the results of public opinion polls, yet far too often the two are treated as if they were identical. Moreover, a focus solely on polling results ignores the dynamics of opinion formation and change, and often overlooks factors that may shape and manipulate public opinion.

Though I am familiar with the procedures, components and interpretation of "polls" and "polling," I offer no pretense of expertise in this area. ES 2000 recognizes that, if objective methodology is utilized and reasonable conclusions are drawn from their findings, polls can give a quick and valid insight into shades of preferences of Americans' attitudes. Or, for reasons ranging from deliberate biases to uncontrollable factors associated with sampling error and confidence levels, they may not. Given polling's pervasiveness particularly in the political realm of our society, I am sure that many of you have had both positive and negative experiences with polling's accuracy and effect on policy and electoral outcomes. Let me just pose to you, Mr. Chairman and members of the Subcommittee, that polls can, and often do, "say" whatever a sponsoring party wants them to say at any point in time. For every poll that you might show me "saying" that the American people generally believe that Social Security is perfectly fine as it is and that they do not see a need for reform, I can show you another poll "saying' just the opposite. And for every one of those, I could show you a poll "saying" that most Americans believe the moon is made of green cheese.

Polling can supplement attempts to gauge public opinion and knowledge of Social Security and other issues, but it alone is not sufficient. It alone can never replace or outweigh the value of the far superior method of physically going out and actually talking to working and retired Americans, engaging them and sometimes educating them about the facts. That is what Economic Security 2000 is all about. Having traveled to more than 70 cities in 25 states, we contend that the people themselves—as opposed to verbal responses to structured poll questions—are the true barometers of what the country knows and feels toward Social Security and many of the interrelated economic facets that engender this vital social program. In a sense, ES 2000 represents the "texture" of public opinion—we are a national focus group of sorts.

I come before this Committee as an informed representative of a grassroots educational network that directly interfaces and interacts with people and groups of all ages and political persuasions. It is especially because Social Security is an issue that is subject to all kinds of demagoguery and political and class warfare that ES 2000 exists.

ES 2000 is an all-inclusive, non-partisan "truth-telling" campaign on all aspects of Social Security and how it affects every American. By calling our toll-free number 1–888–SS–FACTS, all Americans can get the facts about Social Security today, its prospects for the future, and the attitudes of what Americans really want from a national retirement system. As an aside, I encourage your staffs to contact us to learn about what we are doing in your districts.

I should add that ES 2000 does not operate or organize within rigid, predetermined paradigms or bases of support. Rather, our efforts include a broad base of support from Americans of every walk of life: Democrats, Republicans, Independents, seniors, Baby Boomers, Generation X-ers, union members, young professionals, students, minimum-wage workers, and urban and agricultural workers all comprise ES 2000 and our mission. As such, we bring a unique insight to the mood, sentiments and beliefs of a large sphere of the country regarding personal finances and retirement security. I urge the Committee to heed the growing number of voices of the American polity that, once armed with the unadulterated facts about Social Security and the potential for expanded economic opportunity for all Americans, want Social Security to be both saved and reformed.

In short, Mr. Chairman and members of the Subcommittee, the broad and diverse faces of America that comprise ES 2000 believe that Social Security can no longer afford to be seen in a vacuum—as a stand-alone program—for it touches the lives of almost every American and in a variety of social and economic ways. Social Security's future can no longer ignore the need to create savings and wealth, create higher standards of living and ensure real retirement security for every American.

I am complying with the Committee's focus with my following comments on the specific parameters of public opinion and Social Security about which it requested:

1. Americans' understanding of today's Social Security programs; 2. Americans' understanding of Social Security's long-term financial insolvency; 3. Americans' views on what changes are necessary to fix Social Security.

As nearly three quarters of Social Security recipients are seniors and the thrust of the Social Security debate revolves around the issue of retirement security, I ask your indulgence in largely concentrating and confining my commentary to this, the largest portion of the program. This is in no way a relegation of the value or importance of Social Security's disability side, but rather a comporting extension of ES 2000's advocacy that this part of Social Security works well and ought to continue in its current operation and administration.

ES 2000 finds that it very much depends on a variety of demographic factors as to Americans' general understandings and misunderstandings about today's Social Security system. To the fullest extent possible, I will specify within these different demographic groupings.

1. Understanding of Today's Social Security Programs

In general, American workers, families and seniors of all ages and incomes have a fundamental lack of knowledge of how Social Security and its related programs work, and what the programs' underlying intentions and capabilities are.

Most older Americans, we have found, view Social Security as a right of passage—a sacrosanct entitlement into which everyone contributes during their working lifetimes and from which they can expect a decent retirement income. We interpret this as generally supportive of most Americans' positive view of the program and its successes to date of lifting millions of seniors out of poverty. But outside the senior population there is a general unfamiliarity that Social Security is a Depression-born program that has essentially remained unchanged over its 62 year history. And while most Americans know that Social Security is a program designed for retirement benefits, very few are familiar with the disability and survivors elements of the program.

In addition, there are plenty of misconceptions about how Social Security is financed and what levels of income workers can expect in retirement. Most Americans know that they pay something into the system, but do not understand the nuances among the Federal Insurance Contributions Act (FICA), "payroll taxes," Federal Old-Age Survivors Insurance (OASI), Federal Disability Insurance (DI), the proportions each take out of their paychecks and the distributions of each in financing Social Security. For purposes of convenience, I will herein after refer to contributions to the Social Security system as "payroll taxes," as the largest portion of these taxes are allocated to the Social Security system. I realize the technical and legal distinction that "payroll taxes" also includes a small portion allocated to the Federal Hospital Insurance (HI) Part A Medicare program.

The major exceptions to these observations on the country's comprehension of Social Security financing are the self-employed and small business owners: as a sub-

population, the self-employed and small business owners are expected to meet payrolls regularly, and as such have a more than pedestrian understanding about the various aspects of contributions into Social Security. Indeed, the self-employed are particularly familiar with their contributions to Social Security as they often are "double taxed" with their Self Employment Contributions Act (SECA) payments comprising both the "employee" and "employer" portion.

In addition, a large proportion of Americans does not comprehend that Social Security is supposed to be a self-financed system of transfer payments from young to old—the term "pay-as-you-go" is rarely understood—and that current benefit levels are directly related to the level of payroll taxes that younger workers are willing to pay now and in the future. Far too often in the Social Security debate we hear sentiments similar to those of Geraldine Malerba, a 60-year-old teacher in New York City, New York, who thought that the government can spend as much or as little on Social Security as it wants—as if the system were just another government program to be expanded or cut with the annual debate over the allocation of general tax revenues.

While most Americans think that Social Security does not pay enough and would like to see benefits expanded, few grasp the notion that expanding overall benefits necessarily requires raising aggregate payroll taxes at some point, thereby taking more money out of the pockets of American workers.

Another very common misconception among Americans is the view that Social Security is some sort of bank account, complete with set-aside sums of money paid, account numbers and benefit statements, that will pay workers back with interest. And with relatively low payroll taxes until the 1970s, it was just that for those Americans now retired. Almost all of the people that we encounter, particularly those born in the 1950s or later, become shocked when informed that the average return on taxes paid into the system has been steadily falling since Social Security's beginnings and is less than 2 percent today. These same younger and middle-age people practically roll over upon hearing they will have to live considerably beyond their normal life expectancies in order to reclaim the amount of payroll taxes they paid into the system. This trend only gets worse for today's youngest Americans.

And this leads to a related topic: when we speak to individuals and groups about reform proposals toward a two-tiered system that "de-politicizes" Social Security and enables workers to save and invest a portion of their payroll taxes in individually owned personal savings accounts, many people assume that they already have such an individual account arrangement with today's Social Security system. These very same people are completely disillusioned and unaware that Social Security benefits are not stored in some individually owned account in a vault somewhere in Baltimore, Maryland. They are also unaware that Social Security benefits are in no way guaranteed, that workers have no legal claim to future Social Security benefits, and that Congress has the power to change benefit levels at any time. As stated in the Supreme Court decision in Fleming v. Nestor, U.S. 610 (1960), the taxes that workers pay toward Social Security does not confer upon them a legal right to receive benefits. As you can well imagine, knowledge of this point of law is practically nonexistent across the country.

Although ES 2000 finds that overall knowledge of financial and retirement issues is slowly increasing across the country, far too many Americans still do not understand Social Security's place in the retirement equation: that President Franklin Roosevelt envisioned the system as only a safety net "leg" of a three-legged secure retirement stool, with the other two legs being pension income and personal savings. And for a large proportion of those who may understand the concept of a three-legged secure retirement stool, a disturbing number does not have the opportunity or ability to save or participate in employer-provided retirement plans, both of which practices nearly every financial planning expert would attest is necessary to provide for a decent retirement. As you may know, only about half of the American workforce is covered by employer-provided pensions, and many of those that are often lose accumulated assets when changing jobs because of vesting and portability practices.

As testimony to the severe lack of savings and pensions among Americans, the Social Security Administration's own statistics show that 66 percent of retirees already rely on Social Security for at least half of their retirement income, and one out of four depend on it for 90 percent or more. Rather than providing a protection against poverty in retirement, Social Security is retirement for a growing number of Americans—something for which it was never intended or equipped to provide. This is the grave problem.

We find that this growing reliance on Social Security and the very low personal savings rate among American households stems most often from circumstance and not choice. American households now save less than 4 percent of their disposable

income—less than half the rate at the start of the 1980s—and the bottom 60 percent of American families have average savings of less than $1,300. Saving at the end of each month is hard enough as it is for millions of moderate- to lower-income Americans—impossible for some—and a sudden emergency like loss of job or medical expenses can often wipe-out whatever savings have been achieved by American workers, putting the chances for a decent retirement on hold even longer. And often, plans to put-away savings sooner are pushed back or delayed with intentions to save greater proportions of disposable income later. But as many middle class Americans can attest, after paying payroll, federal, state and local taxes, paying bills and other basic living expenses, something else almost inevitably arises in households that requires potential savings and postpones the savings process further. It is not so much that these middle class families don't want to save—they simply don't have the disposable income to do it.

2. UNDERSTANDING OF SOCIAL SECURITY'S LONG-TERM FINANCIAL INSOLVENCY

Mirroring the findings of many recent public opinion surveys on the future of Social Security, ES 2000 encounters significant doubt and anxiety among most Americans—especially younger Americans—about Social Security's viability.

There is a pervasive feeling and thinking among Americans born after 1960 or so that Social Security just "won't be there" when they retire. This is to say, most of the people and groups with whom we collaborate have knowledge—primarily from official government data and media accounts—of Social Security's looming insolvency. And there is an underlying belief across the country—and across most demographic groups—that major changes to the system are necessary to preserve it.

Knowledge of the causes of Social Security's near-term financial insolvency, however, is not as wide-spread. ES 2000 tends to encounter that more-educated and higher-income Americans realize that a combination of changing demographics and a depleted trust fund are at the heart of Social Security's financial problems. Among other Americans, those who voice the most doubt about Social Security's future view the magnitude of the government's annual deficits or national debt as the main reason.

As to knowledge about the costs of fixing Social Security's financial problems, we have found that the public is sporadically aware of what is required to keep the current system afloat for the long-term. Though the media has done a commendable job in reporting the projections and findings of the 1994 Bipartisan [Kerrey-Danforth] Commission on Entitlement and Tax Reform, the President's Advisory Council on Social Security and the annual Social Security Trustees' Reports, we experience that many Americans are not conscious of the substantial levels of tax increases or benefit cuts that these official government data have indicated will be required to fund Social Security and Medicare within 30 years: doubling payroll taxes or cutting benefits 43 percent. Indeed, a large proportion of moderate- to lower-income workers is too pre-occupied with financially fending for the next week, month or year to focus on and grasp these statistics and what they mean for their daily lives and financial health.

We find that the knowledge of recent history about Social Security's financial problems is also somewhat sporadic. There is scarce realization of the fact that payroll tax rates have been raised more than twenty times since 1937. Seniors, however, are a major exception to this observation. Seniors also have more recognition or recollection of both the major payroll tax increases and benefit cuts which occurred in 1977, 1983 and 1993, and the fact that in each instance Americans were assured by Washington that the "fixes" would restore the financial soundness of Social Security through most of the 21st Century.

When we provide people across the country with the facts of the past tax increases and benefit cuts to "fix" Social Security and of the steep projections of more needed to keep the system afloat, most Americans become indignant. This indignation only increases when informed that three out of four wage earners in the country are paying more in payroll taxes than in federal income taxes. "Why should we expect to believe again that one more patchwork of tax increases or benefit cuts will suffice?" said Michael Hartley, an ES 2000 volunteer in Durham, North Carolina. "This just to get back some $800 per month when and if I'm able to retire? Were the last three rounds of tax hikes and benefit cuts just rearranging deck chairs on the Titanic?... How can we save when they keep taking more money out of our pockets?

We find that Americans' opinions are nearly unanimous on the notion that even if we do simply raise taxes or cut benefits again to "save" Social Security as it is now, these devices do nothing to address the severe lack of savings and wealth creating opportunities for most Americans.

We have also found that there is almost no understanding of the unfunded liability—some $10 trillion—that represents the difference between what we have promised to pay each eligible recipient in benefits and what we have the ability to pay under current law. There is no realization that this figure keeps increasing each year under the current system, but would be a one-time cost with a definite endpoint in transitioning to a funded system.

3. Views on What Changes are Necessary to Fix Social Security

Though views are somewhat disparate about exactly what should be done to fix Social Security, Americans overwhelmingly believe in retaining Social Security's role in providing a safety net against poverty in retirement. At the same time, many believe that they need more and better options for building financial and retirement security.

ES 2000 finds that Americans' views on needed changes to the Social Security system are very much related to their overall knowledge and understanding of how the program works and what its capabilities are. When informed with the facts about these aspects of the system, we generally find that the American public would like to have some sort of savings component added to the safety net. Most respond favorably to the concept of allowing American workers to put some of their hard-earned payroll taxes toward more productive resources, toward real economic savings, and let their money work for them.

There are, however, still some who would accept higher payroll taxes or benefit reductions, but only in the context that they could have an iron-clad guarantee that they would be sufficient to preserve, once and for all, the solvency of Social Security over throughout the next century and to provide higher benefits to the most needy. These Americans resents and rejects the continuous reliance on tax increases or benefit cuts as short-term "fixes" for the long-term problems of changing demographics and actuarial imbalance. But when reminded of the assurances sold to the American public in 1977, 1983 and 1993, support for this position wanes dramatically.

Conclusion

In closing, Mr. Chairman, ES 2000 finds that most Americans think that Social Security should retain its role in providing a safety net protection against poverty in retirement. What they are really saying however, is that the government should have a role in providing a secure retirement for all, regardless of the state of personal savings or pensions.

This thinking necessitates a new way of approaching Social Security. Social Security is no longer the "third leg" of the retirement stool. It is rapidly becoming the only leg of the retirement stool.

In order to make that leg work, we are finding that people overwhelmingly support moving to some type of public-private partnership in creating a savings and wealth creating system for the American people. We can allow the American people to save part of their payroll taxes—money they are already paying—in an account with their name on it; we can allow a portion of their payroll tax to continue to go into the Trust Fund to keep a strong safety net against poverty in retirement and to pay for disability and survivors benefits—the same manner in which Social Security operates now.

In instituting such reforms, we add the benefit of creating wealth where currently none exists. We can, for the first time in a generation, allow the moderate- to low-income workers of this country to save money for their own retirements and for a financial nest egg for their children and grandchildren. By creating and building savings, we are giving the Oseola McCarty's of America, perhaps, the half leg up that they need to break their recurrent cycles of poverty and to take part in the American dream and own a piece of America's economic success.

In the words of President Franklin D. Roosevelt himself: "We stand committed to the proposition that freedom is no half-and-half affair. If the average citizen is guaranteed equal opportunity in the polling place, he must have equal opportunity in the market place." The American people want and deserve a national retirement system that has the ability to recognize a lifetime of hard work and the decency to respect and reward it.

Thank you, again, for this opportunity to appear before you today, Mr. Chairman and members of the Subcommittee. I will be happy to answer any questions you may have regarding my testimony.

Chairman BUNNING. Thank you, Mr. Keane.

Mr. Salisbury.

STATEMENT OF DALLAS L. SALISBURY, PRESIDENT, EMPLOYEE BENEFIT RESEARCH INSTITUTE; AND CHAIRMAN, AMERICAN SAVINGS EDUCATION COUNCIL

Mr. SALISBURY. Mr. Chairman and Members of the Subcommittee, it's a pleasure to be here today.

I serve in dual capacities that have me in here today as president of the Employee Benefit Research Institute, a nonprofit research and educational group that started here in Washington in 1978; and the American Savings Education Council, which we founded in 1995, to take the message of the need for savings and retirement planning more broadly to the American people.

This morning, since we've heard from a number of others at will, and much of our research and public opinion that began in 1990 with the Gallup organization, and since 1994 with Matthew Greenwald and Associates, essentially reinforces the key points of the other witnesses. First, that knowledge is low; second, that confidence is relatively low. I will note in both cases, very much on an age specific basis. And third that the public strongly, at all ages, including the Generation Xers, wants the Social Security system maintained.

Instead, I'll focus on two points that relate to that confidence issue. First is an issue referred to by the last point of the prior witness, the issue of a trust fund. And in our most recent survey, we asked the following question: What do individuals believe trust fund exhaustion means. They were given two choices. The system will be completely broke and unable to pay any benefits, or, the system will have fewer assets and will have to pay out benefits at a reduced level.

Thirty percent incorrectly believe that it means the system will be completely broke and unable to pay any benefits. Significantly, 48 percent of Generation Xers believe that it means there will be no money for any benefits. This is to underline the necessity of a broad-based national education campaign for the American public, so that on simple issues of the structure of the Social Security Program, they understand the trust fund insolvency simply means that there is not enough cash to pay 100 percent. There is in fact, by the Social Security actuaries numbers, broadly accepted, at least enough money to pay 75 percent of the promised benefits.

We believe that what is ironic is that in spite of this 48 percent of Generation Xers saying that they think nothing will be there, that they overwhelmingly support continuation of the program and overwhelmingly join all other Americans in our surveys, in contradiction of some of the earlier comments, in saying that, given the choice between paying higher payroll taxes or having benefits cut, that they would favor paying higher payroll taxes. This includes nearly 60 percent of Generation Xers when faced with that precise choice.

As a final point of reference, last year in terms of this issue of public perception, Luntz Associates did a survey for Third Millen-

nium that gained very wide public recognition. It gained recognition based on a headline which was a, should we say, very poor use of survey results.

It took the answer to the first question, do you believe in Social Security being there, and compared it to the response to the 14th question, do you believe in UFOs. And it implied in all of its coverage that the people had been asked, do you have greater confidence in Social Security or in UFOs, which is not what any survey researcher would tell you is a legitimate use of survey results.

We just got back a survey last week. We found that 58 percent of the public believes they will receive some benefit from Social Security. This ranges from 83 percent of those about to retire down to 44 percent of those younger than the baby boomers. This finding is consistent with the Luntz Generation X survey. Their number, instead of 44 percent, was 41 percent, but within the ball park of their plus or minus 4 percent of error.

Second, we asked, do you believe that living beings from other planets have piloted spacecraft to or near Earth. We asked this question, for those who laugh, because one Member of Congress, a member of the Ways and Means Committee, in many speeches around the country, has cited the Luntz Survey as showing that the public has more confidence in little green men from Mars than they do in Social Security, and cites the Third Millennium survey. We decided to test the theory.

Thirty percent of the American public believes that these aliens exist. Sixty percent does not. Third, because of the attention to that survey, we asked, which definition of UFO comes closer to your belief structure. Seventy-seven percent said, an object in the sky that cannot be identified. And 19 percent said a spacecraft that is controlled by an alien.

Fourth, we asked people, which do you have greater confidence in. Seventy-one percent said receiving Social Security benefits after retirement, as opposed to 26 percent that said alien life from outer space exists.

For Generation Xers, these responses are slightly different. But even for Generation Xers, 63 percent have greater confidence in receiving Social Security than in the existence and the life of alien beings.

I only underline this to underline the degree to which, as this debate goes forward, the U.S. Congress and the U.S. public must review all public opinion surveys with healthy skepticism and take great care in looking at what has been found, what has been presented, and what it means. Careful selection of questions can lead to very misleading results, as we move forward with this reform of a most important and vital American program.

Thank you.

[The prepared statement follows:]

Statement of Dallas L. Salisbury, President, Employee Benefit Research Institute; and Chairman, American Savings Education Council

The views expressed in this statement are solely those of the author and should not be attributed to the Employee Benefit research Instatite, or the EBRI Education and Research Fund, its officers, trustees, sponsors, or other staff, or to the EBRI–ERF Amercian Savings Education Council. The employee Benefit Research Insttiute is a nonprofit, nonpartisan, public policy research organization which does not lobby or take positions on legislative proposals.

Mr. Chairman and members of the committee: I am Dallas L. Salisbury, President of the Employee Benefit Research Institute (EBRI) and Chairman of the American Savings Education Council (ASEC), both located in Washington, DC. I take full responsibility for my statement today, and my thoughts should not be attributed to the organizations for which I work.

OUR SURVEY WORK

EBRI began doing public opinion research on Social Security in 1990. This research has been conducted by two different organizations in different years: the Gallup Organization from 1990 to 1996, and Matthew Greenwald and Associates with an annual Retirement Confidence Survey (RCS) from 1990 to 1997. These surveys have explored a wide range of economic security topics. In 1998, EBRI will initiate an annual Health Confidence Survey.

I have made extensive material available to the Committee, which has been submitted as part of the full statement. This morning, I want to highlight findings that relate to the debate over Social Security reform.

Social Security, UFOs, and Aliens

EBRI recently completed a new survey with Matthew Greenwald and Associates that looks at Social Security, UFOs, and aliens.

First, 58 percent of the public believes that they will receive some benefits from Social Security. This ranges from 83 percent of those about to retire down to 44 percent of those younger than the baby boomers. This is consistent with a 1995 Luntz survey of generation X.

Second, we asked, "Do you believe that living beings from other planets have piloted space craft to or near earth, which have been seen by human beings?"

- 30 percent said yes
- 60 percent said no

Third, because of the attention given to the 1995 Luntz survey for Third Millenium that was publicized as comparing faith in Social Security to belief in UFOs, we asked the public: "Which one comes closest to your definition of UFO?"

- 77 percent said an "object in the sky that cannot be identified," and
- 19 percent said a "spacecraft that is controlled by an alien."

Fourth, we asked people, "Which do you have greater confidence in?

- 71 percent said "receiving Social Security benefits after retirement," and
- 26 percent said that "alien life from outer space exists."

For generation X'ers, these responses were 63 percent and 33 percent.

The Gallup organization has undertaken surveys since the 1950s that have found that a consistent 40 plus percent of the population thinks that UFOs exist. The 1995 Luntz survey found that 46 percent of those ages 18–34 believed that there were UFOs. Separate from that question, Luntz found that 63 percent (±4.4 percent) of those ages 18–34 "did not think Social Security will still exist by the time you retire." Fifty-six percent (±4.4 percent) favored being allowed to put part of their payroll taxes into an individual retirement account (IRA) while taking a lower Social Security benefit. Seventy percent opposed raising the retirement age to 70; 51 percent favored means testing the benefits; 51 percent favored taxing 100 percent of the benefits paid to upper middle income taxpayers.

The Public and Social Security

First, our surveys have consistently found that the public views Social Security as one of the most important programs maintained by the nation—68 percent view it as second only to Medicare.

Second, two-thirds of the public believe that people now receiving Social Security really need the assistance it provides.

Third, over 80 percent of the public has lost some faith in the future of the program. This number has risen over time as media and public attention has focused on the program.

Fourth, in terms of reform, over 63 percent of workers and retirees favor payroll tax increases over benefit reductions, including 57 percent of generation X'ers and 67 percent of women.

Fifth, generation X'ers look to Social Security as a secondary source of retirement income, with their own savings and continued work as primary sources. This represents a substantial change from the past, but given the relatively small benefits paid by Social Security, it says that the young are more realistic about what it will take to have an adequate income in retirement.

Sixth, the public does not have a good understanding of the Social Security program. Asked what trust fund exhaustion meant to them:

- 68 percent said the system will have fewer assets and will have to pay out benefits at a lower level,
- 42 percent either said the system would be completely broke and unable to pay any benefits (30 percent) or did not know (12 percent), and
- 48 percent among generation X'ers thought there would be no money to pay any benefits, compared with 18 percent of pre-boomers.

This exceedingly low level of accurate understanding may help explain why the young have such low confidence in receiving any Social Security benefits. At the same time, it underlines the need for public officials to undertake a campaign to assure that the public has the facts on Social Security.

CONCLUSION

A full review of public opinion on Social Security underlines workers' and retirees' hope that the program will continue to exist and the fact that they do not have a good understanding of the program. This suggests that the first step for policymakers is to educate the public on this "pay-as-you-go program," and then move to a discussion of reform. Today, the public does not have a clear enough understanding of the program to make informed judgments on reform alternatives.

PUBLIC ATTITUDES ON SOCIAL SECURITY REFORM

Surveys conducted by the Employee Benefit Research Institute and the Gallup Organization, Inc. from February 1990 to March 1995 examined public attitudes on Social Security.[1] Time trends and direct comparison among the surveys are problematic due to changes in question wording or response options. However, the survey results do provide some insights into attitudes toward Social Security and how these attitudes have shifted over the years.

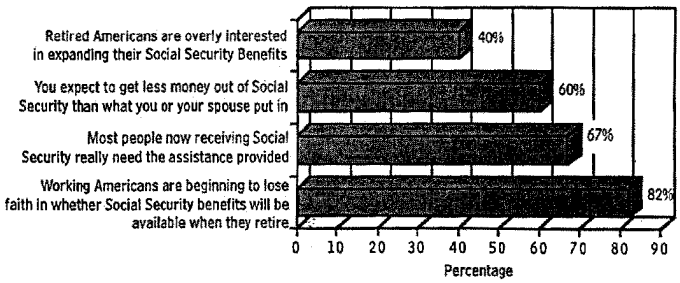
The Current System

In the early 1990s, Americans were evenly split in their beliefs about the likelihood that the Social Security system will be able to pay benefits to them when they retire; in 1990 and 1991, 49 percent believed they would receive benefits. However, in 1990, 92 percent of survey respondents did not believe that the Social Security benefits alone would allow them to meet all of their financial needs during retirement. In recent years, most Americans have become aware of the financing issues facing today's Social Security system. By 1995, 82 percent agreed or strongly agreed with the statement that working Americans are beginning to lose faith concerning whether Social Security benefits will be available when they retire (chart 1).

[1] See Employee Benefit Research Institute/The Gallup Organization Inc., "Public Attitudes on Social Security 1990," EBRI Report G–7 (Washington, DC: Employee Benefit Research Institute, 1990; "Public Attitidues on Social Security Benefits 1991," EBRI Report G–23 (Washington, DC: Employee Benefit Research Institute, 1991); "Public Attitudes on Social Security, Part I," EBRI Report G–56 (Washington, DC: Employee Benefit Research Institute, 1993); "Public Attitudes on Social Security, Part II," EBRI Report G–57 (Washington, DC: Employee Benefit Research Institute, 1994); and "Public Attitudes on Social Security, 1995," EBRI Report G–62 (Washington, DC: Employee Benefit Research Institute, 1995).

Chart 1

PERCENTAGE OF RESPONDENTS WHO AGREED OR STRONGLY AGREED, MARCH 1995



Source: Employee Benefit Research Institute/The Gallup Organization, Inc., "Public Attitudes on Social Security, 1995," EBRI Report G-62 (Employee Benefit Research Institute, 1995).

Is the current Social Security system a good program for today's younger workers? Only one-third of respondents in 1995 either agreed or strongly agreed that it is, while nearly one-half (47 percent) disagreed or disagreed strongly that this is a good program for today's younger workers.

Reform Proposals

Several of the reform proposals put forth today advocate contributions to individual retirement accounts. In 1991, when asked if Social Security taxes, or a portion of these taxes, should go to individual retirement accounts in the worker's own name, or if the system should remain as it is, 61 percent thought the money should go to individual accounts, while 32 percent believed the system should stay as it is. The March 1995 survey found that 53 percent agreed or strongly agreed that most people could make more money by investing their retirement funds in the private sector than they could from Social Security. This has been a hot topic recently, with regard to individuals' ability to invest wisely and at an appropriate risk level. These concerns translate into a concern for overall retirement income adequacy.

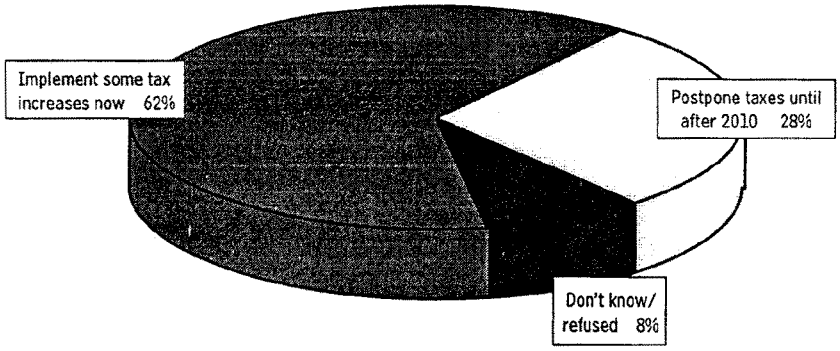
The idea of a voluntary Social Security system has also arisen in the reform proposals. In 1990 and 1991, among survey respondents, 45 percent and 50 percent, respectively, were in favor of voluntary participation. While some advocates of reform favor a voluntary program, this idea has raised concern among others regarding the adequacy of individuals' incomes in retirement.

When respondents were asked in the 1991 survey if they thought higher taxes would be required in order for Social Security benefits to be paid in the next century, 73 percent responded affirmatively. Forty-two percent of individuals surveyed in 1995 disagreed or strongly disagreed with the statement that taxes will have to be raised dramatically to pay for Social Security benefits in the future. In comparison, one-third agreed or strongly agreed with the preceding statement.

Contrary to the notion that individuals do not welcome immediate change, in the March 1995 survey, Americans indicated a preference for some immediate tax increases in order to lessen the tax burden on future workers (62 percent in favor) (chart 2). Interviewees were informed that, in order to maintain present levels of Social Security benefits for baby boomers, the Social Security payroll tax would have to increase approximately 27 percent to 33 percent for both employers and employees by 2030. Twenty-eight percent said they preferred to postpone taxes until after 2010.

Chart 2

PAYROLL TAX INCREASE PREFERENCES, MARCH 1995



Source: Employee Benefit Research Institute/The Gallup Organization, Inc., "Public Attitudes on Social Security, 1995," EBRI Report G-62 (Employee Benefit Research Institute, 1995).

Changes in the Level of Benefits Received

Twenty-four percent of surveyed individuals in April 1994 expected the level of Social Security benefits to increase in the future, while 40 percent expected benefits to decrease and 31 percent believed they would be eliminated. Benefits would remain the same, according to 4 percent of respondents. A similar question was asked in March 1995; however, direct comparison of the responses is not possible because the questions were phrased differently[2] and the response options differed as well. In March 1995, 21 percent of respondents expected that benefits would be reduced for all people, whereas 25 percent expected they would be reduced at a greater rate for higher income people than for lower income people. Additionally, 26 percent thought the benefits would stay the same, and one-fifth thought they would be eliminated.

Interestingly, when individuals were asked what they believed should happen to the level of benefits (as opposed to what they expect to happen), their responses were quite different. Not surprisingly, a greater percentage would prefer to see only some people affected by reform. Five percent believed that Social Security benefits should be reduced for everyone, but 45 percent believed that benefits should be reduced more for higher income people than for lower income people. Another 40 percent thought benefits should stay the same, and 4 percent thought the benefits should be eliminated.

Expected Returns

In the March 1995 survey, 60 percent of respondents supported the fact that a part of every working person's income goes to support the Social Security program, which is the basic premise of a social insurance program. However, 17 percent of individuals were opposed to this arrangement. Although a majority believe that everyone should pay into Social Security, some believe that not everyone should receive benefits from the program. Thirty-two percent agreed or strongly agreed that retirees with earnings over $100,000 should not get Social Security, even if they paid into the system. However, nearly one-half (47 percent) either disagreed or strongly disagreed with the previous statement.

Sixty percent of those surveyed in 1995 expected to receive less money from Social Security than they contributed. Interestingly, age differences existed for this question. Among those ages 18–34 and 35–54, 72 percent and 67 percent, respectively, expected to contribute more money than they would receive from Social Security.

[2] The April 1994 question read, "Do you expect the level of Social Security benefits to increase, decrease, or be elimiated in the future?" while the March 1995 question read, "In the future, do you expect that Social Security benefits will: (a) be reduced for all people, (b) be reduced at a greater rate for high income people than for low income people, (c) stay the same, (d) be eliminated, or (e) don't know.

In comparison, 34 percent of those ages 55 and older expected to receive less money than they contributed.

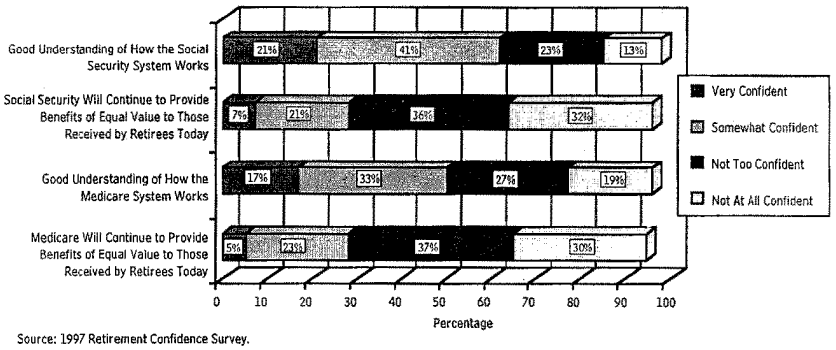
In general, Americans believe Social Security to be a good program and, in 1995, 67 percent of survey respondents agreed or strongly agreed that most people receiving Social Security really need the assistance it provides. Most people are now aware of the upcoming issues facing the program and are conscious of the need for some type of reform.

Social Security Finances

It is apparent that many Americans do not understand the debate over the Social Security's long-term financial condition. Thirty-six percent reported in the RCS that they are not confident that they have a good understanding of how the Social Security system works (chart 3). While this number is at its lowest point since the question was first asked in 1992, it is still only slightly below the 38 percent figure reported in 1992. Respondents were asked what they believe the term "trust fund exhaustion" means and were given two choices—(1) the system will be completely broke and unable to pay any benefits or (2) the system will have fewer assets and will have to pay out benefits at a reduced level. Thirty percent incorrectly believe that it means the system will be completely broke and unable to pay any benefits (in addition, 12 percent responded that they do not know) (chart 4). The younger the individual, the more likely this response. Nearly one-half (48 percent) of generation X'ers believe trust fund exhaustion means system bankruptcy, compared with 18 percent of pre-boomers. This is not surprising, given that 52 percent of generation X'ers are not confident in their understanding of how the system works, compared with 23 percent of pre-boomers.

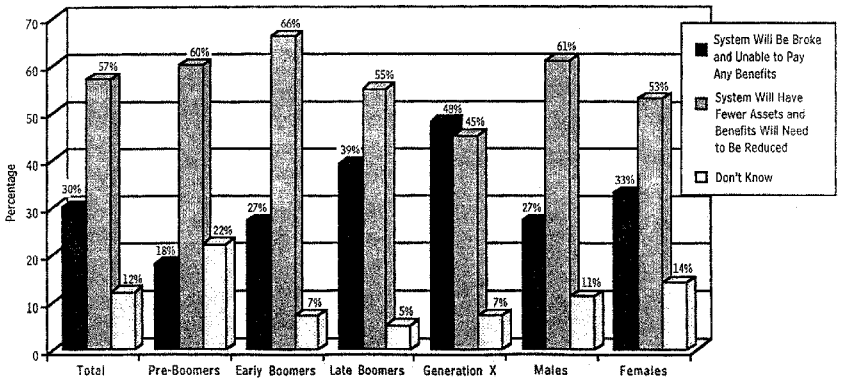
Chart 3

AMERICANS' CONFIDENCE IN SOCIAL SECURITY AND MEDICARE



Source: 1997 Retirement Confidence Survey.

Chart 4
MEANING OF "TRUST FUND EXHAUSTION" TO AMERICANS



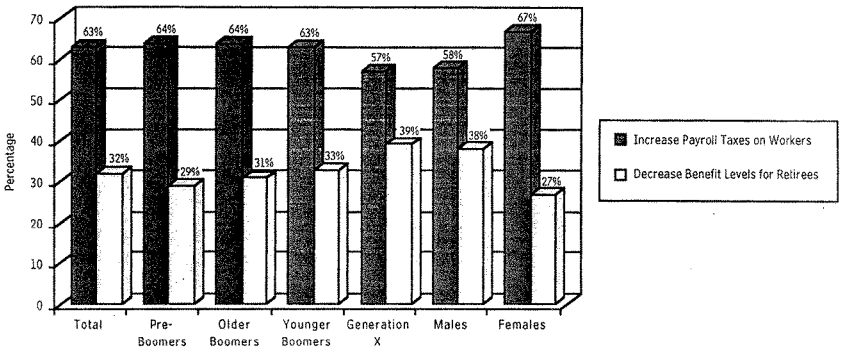
Source: 1997 Retirement Confidence Survey.

Sixty-eight percent of Americans are not confident that Social Security will continue to provide benefits of equal value to the benefits received by retirees today (chart 3). This figure is down from its peak of 73 percent in 1995, but is still higher than the 65 percent first reported in 1992. Among workers, only 12 percent expect it to be their most important source of retirement income, while 22 percent do not expect it to be an income source at all in retirement.

Other Surveys Find: The Public Agenda/Fidelity study found that 22 percent expect to get nothing from Social Security.

Assuming that adjustments or changes must be made to the Social Security system to ensure its financial viability in the future, RCS survey respondents were forced to express a preference between increased payroll taxes on workers or reduced benefit levels for retirees. When forced to choose, 63 percent chose increased payroll taxes and 32 percent chose decreased benefit levels (chart 5). The majority of each generation chose increased payroll taxes, although generation X'ers were the least likely to favor it (57 percent). Sixty-seven percent of women chose increased payroll taxes, compared with 58 percent of men. Among those favoring benefit cuts, there was a fairly even split when forced to express a preference for how to make the cut. Thirty-three percent favored raising the age for retirement with full benefits to 70, 37 percent favored decreasing cost-of-living-adjustments (COLAs) that occur with inflation, and 26 percent favored cutting benefits for all recipients.

Chart 5
IF FORCED TO CHOSE, AMERICANS' PREFERENCE FOR SOCIAL SECURITY REFORM



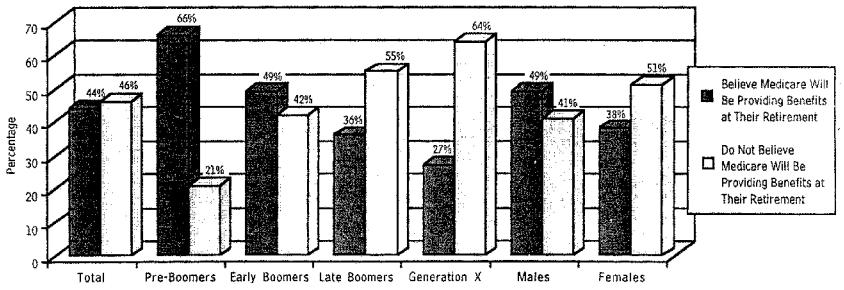
Source: 1997 Retirement Confidence Survey.

As regards Medicare, 67 percent of Americans are not confident that the system will continue to provide benefits of equal value to the benefits received by retirees

today (chart 3). In fact, 46 percent of workers do not believe that the Medicare program will still be providing health insurance when they retire (chart 6). Women are more likely to feel this way than men (51 percent, compared with 41 percent). Sixty-four percent of generation X'ers feel this way, compared with 55 percent of late boomers, 42 percent of early boomers, and 21 percent of pre-boomers. This may help explain why 36 percent of workers are not confident that they will have enough money to take care of medical expenses when they retire.

Chart 6

DO WORKERS BELIEVE MEDICARE WILL BE THERE WHEN THEY RETIRE?



Source: 1997 Retirement Confidence Survey.

Chairman BUNNING. Thank you.

Ms. Knighton.

STATEMENT OF BETTY KNIGHTON, MODERATOR, NATIONAL ISSUES FORUMS INSTITUTE, CHARLESTON, WEST VIRGINIA; ACCOMPANIED BY JOHN DOBLE, PRESIDENT, DOBLE RESEARCH ASSOCIATES, INC., ENGLEWOOD CLIFFS, NEW JERSEY; JULE ZIMMET, MODERATOR, NATIONAL ISSUES FORUMS INSTITUTE, EL PASO, TEXAS; BOB KINGSTON, ASSOCIATE, KETTERING FOUNDATION

Ms. KNIGHTON. Good morning. My name is Betty Knighton, and I'm a National Issues Forums moderator from Charleston, West Virginia.

National Issues Forums is a network of thousands of civic and educational organizations around the country that convenes citizens forums. We're in our 16th year. And the organizations that hold forums now range from libraries to literacy groups, from community colleges to churches, from high schools to senior citizen groups to agricultural co-ops.

I would like to emphasize that National Issues Forums is nonpartisan and nonprofit. Forums are always locally financed, locally organized and locally determined. They champion no political cause.

National Issues Forums differ significantly from polling and from political debates. In the forums, citizens deliberate on the benefits, the costs and the consequences of a range of options on an important issue. The issues are not framed in technical, expert terms nor in partisan political terms.

It's been my experience in 6 years of convening and moderating National Issues Forums that citizens are willing and able to bring

their personal concerns to bear on a discussion of public needs and national policy when issues are framed in this way. The National Issues Forums discussion guide we use in our forums on Social Security, the report analyzing the results of the forums, and a copy of "A Public Voice," a PBS television special based on these forums, are all in your materials.

[The material is being retained in the Committee files.]

You'll also find a letter from Governor William Winter, Chairman of the National Issues Forums Institute Board. He regrets that he couldn't be here today, but he did want to convey his enthusiasm to you for this way that citizens are doing their part in helping to set directions on important national issues. Jule Zimet, a National Issues Forums moderator from El Paso, Texas, and Bob Kingston, an associate with the Kettering Foundation, are with us and also available for your questions.

I would like now to introduce John Doble, of Doble Research Associates, who with his colleagues independently analyzed the results of our forums.

Chairman BUNNING. Mr. Doble, go right ahead.

Mr. DOBLE. Thank you, Mr. Chairman.

Thank you, Betty.

Each year, National Issues Forums are held in hundreds of communities across the country. Our findings come from analyzing questionnaires people filled out before and after the forums, conducting interviews with moderators across the country about what happened in their forums, listening to what people said in forums that we monitored directly or reviewed on video tape, and conducting focus groups ourselves. We believe this procedure enables us to reach a deep understanding about how Americans are thinking about this issue.

Here are our seven major findings. First, the issue of entitlement for seniors was in participants' minds not one issue, but two, Social Security and Medicare. Medicare was seen as part of a larger issue of health care. To forum participants, Social Security was the more urgent issue, with concern centered on what they saw as its possible insolvency.

Two, no matter what changes we make to Social Security, participants concluded that we as a people had an obligation to provide adequate health care and enough income to keep all elderly Americans out of poverty. As well as being a moral imperative, a universal retirement system was seen to be vital for practical reasons.

These programs have worked, said a woman from Lake Worth, Florida. While there were differences of opinion between young and old, sometimes marked differences, we saw in the forums no sign of an intergenerational war. But young and old felt this was a common problem, something we must solve together.

Three, participants opposed making Social Security a means-tested program, both before and after they deliberated. However, while they oppose the concept of means testing, many favored some incremental changes, some of which would have a disproportionate effect on those in upper income brackets. Majorities found three changes worth considering.

First, raising the ceiling on the Social Security tax. Indeed, many did not realize that Social Security taxes are paid on only about the first 60-odd thousand earned each year. Second, they favored taxing Social Security benefits like other retirement income. And third, there was support for adjusting the Social Security, COLA, cost of living adjustment.

Our fourth finding is that younger participants in particular fear that Social Security will not be there when it's time for them to retire. Again and again, in the forums, younger participants said that if nothing is done, Social Security would bankrupt before they could retire. An irresistible force, they said, is the large number of baby boomers who will soon become eligible for benefits.

Among those under 30, 73 percent were very concerned that Social Security and Medicare will run out of funds before long. Seventy-three percent very concerned. Fears based on demographics and the deficit played into a broader cynicism about government competence and trustworthiness.

Five, there was great interest in exploring the idea of mandatory private retirement accounts, especially among younger respondents. Participants considered whether to replace Social Security with a Chilean-type system, a mandatory private retirement account in which people would have to save for retirement, but could control the money themselves. Large numbers, especially those under 30, wanted to talk about this concept.

Participants said private retirement accounts would give them more control over their savings. And 67 percent said it's very important that people take more responsibility for their own retirement. But the key reason why so many young people were attracted to the idea was their belief that this was the only possible option that might be there for them when they reach retirement age.

At the same time, as people deliberated about this issue, serious questions arose. Would everyone invest wisely? Would some end up with too little to live on? Would the transition costs be enormous? Wouldn't switching to a private system cut some of the bonds that hold society together? Should peoples' choices be limited or insured?

But these questions notwithstanding, interest in the idea remained high after the forums.

Six, as people deliberated, one effect was crystal clear. They moved from thinking of Social Security as a senior's only source of income to seeing it as one leg of a three-legged stool. At the start of the forums, many participants spoke of Social Security as something designed to support retirees. It can be their main or only source of income. But as they deliberated, and heard from others, they increasingly came to see it as one source of a retiree's income.

Seventh and last, in these forums, participants said our retirement system faces a crisis, and agreed that something must be done. Their thinking about retirement was markedly different from 15 years ago when NIF first took up this issue. While leaders saw a crisis, the public then was just learning about the issue. Now, there is a general sense among participants that this issue must be dealt with, with 59 percent saying they are very concerned that Social Security and Medicare will run out of funds before long.

In sum, while the conventional wisdom is that this is a third rail issue, the forums show that the American people are ready to talk seriously and responsibly about the future of Social Security.

Thank you.

[The prepared statements and attachment follow:]

Statement of Betty Knighton, Moderator, National Issues Forums Institute, Charleston, West Virginia

Good morning. My name is Betty Knighton. I'm a National Issues Forums moderator from Charleston, West Virginia. On behalf of NIF, thank you for the opportunity to tell about what we've learned from listening to citizens deliberate about Social Security and retirement.

National Issues Forums differ from polling and from most public discussions. NIF is a network of thousands of civic and educational organizations around the country that hold citizen forums. It is in its 16th year, and the organizations that hold NIF forums range from libraries to literacy groups, from community colleges to churches, from high schools to prisons, from leadership groups to agricultural co-ops.

I want to emphasize that NIF is nonpartisan and nonprofit; forums are locally financed and locally determined and champion no political cause. NIF moderators do their utmost to remain neutral, and the discussion guides present a range of options to important issues. In the forums, citizens deliberate on the benefits, costs and consequences of each option. The issue is NOT framed in technical, expert terms; NOR in partisan political terms. Instead, each option reflects what a significant percentage of people say are their concerns—what they hold most valuable. In the case of the discussion guide on Social Security, views reflected such deeply held convictions as honoring our promises, the responsibility to future generations that modifications might allow, the importance of maintaining a universal system, and the value of individual choice and personal savings.

It has been my experience in six years of convening and moderating National Issues Forums, that when issues are framed this way, citizens are able to bring their personal concerns to bear on a discussion of public needs and national policy. The NIF issue book on Social Security, the ensuing report analyzing the results of the forums, and a copy of "A Public Voice," a PBS television presentation, based on the forums and broadcast on more than 200 stations—these are all in your materials.

Also, you'll find a letter from Governor William Winter, chairman of the National Issues Forums Institute board. He regrets that he could not be with us today but wanted to convey his enthusiasm for this way of citizens doing their part to help set directions on important issues.

Now, I would like to turn it over to John Doble, of Doble Research Associates, of Englewood, N.J., who with his colleagues independently analyzed the results of the forums and produced the report.

October 23, 1997

Honorable Jim Bunning
Chairman
Subcommittee on Social Security
Committee on Ways and Means
United States House of Representatives
Washington, D.C. 20615

Dear Mr. Chairman:

On behalf of the National Issues Forums Institute, we are grateful for the opportunity to testify on the current state of public opinion on the future of Social Security.

National Issues Forums (NIF) are a 15-year-old, voluntary, nonpartisan, nationwide network of forums and study circles rooted in the simple notion that citizens need to come together to deliberate about common problems in order to act on them. Indeed, we feel, democracy requires an ongoing deliberative dialogue about challenging public policy issues.

Each year, major issues of concern are identified. Discussion guides laying out several policy options, with pros and cons for each, are prepared to help guide the deliberation. Forums are organized all across the country by civic, service, and religious organizations as well as by libraries, colleges, universities and high schools, literacy and leadership programs, prisons, businesses and labor unions, and senior groups. More than 20 Public Policy Institutes are held each year to train NIF moderators and convenors.

Because of its importance to so many of our citizens, Social Security was an issue in NIF's first year. We returned to the subject this year because it remains high on the list of concerns of the American people.

To present NIF's testimony, Betty Knighton, a member of the staff of the West Virginia Humanities Council who runs forums in her home state and serves as a faculty member at the Public Policy Institutes, will speak first. She will be followed by John Doble, president of Doble Research Associates, Inc., of Englewood Cliffs, New Jersey. John Doble has been associated with NIF from its very beginning and wrote the report about the forums' outcomes.

Again, thank you for the opportunity to testify.

Sincerely,

William Winter
Chairman

Statement of John Doble, President, Doble Research Associates, Inc., Englewood Cliffs, New Jersey

Each year, hundreds of National Issues Forums are held in communities across the country—this year in at least 23 states. Our findings come from analyzing over 700 questionnaires people filled out before and after the forums, conducting interviews with five moderators across the country about what happened in their forums, listening to what people said in three forums we monitored directly, and six we reviewed on video tape, and conducting three forum-like focus groups ourselves. We believe this procedure enables us to reach a deep understanding of how Americans are thinking about this issue. Here are our findings.

1. The issue of "entitlements for seniors" was, in participants' minds, not one issue, but two: Social Security, and Medicare, which they saw as part of a larger issue, health care. People in the forums considered "retirement programs" as synonymous with Social Security, while Medicare was seen as part of a larger and more formidable problem—the cost and availability of health care. Although experts see Medicare as a pressing problem but feel that Social Security is a problem the U.S. will not fully encounter until the year 2020, to forum participants, Social Security was the more urgent issue, with concern centered on what they saw as its possible insolvency.

2. No matter what changes we make to Social Security, participants concluded that we, as a people, have an obligation to provide adequate health care and enough income to keep elderly Americans out of poverty. As well as being a moral imperative, a universal retirement system is vital for practical reasons. A theme sounded by both younger and older respondents was that no matter how we change Social Security or Medicare, we, as a society, have an obligation to make sure elderly Americans receive the health care they need along with an income that keeps them out of poverty. "These programs have worked," said a woman from Lake Worth, Florida. "Not long ago, the number of seniors living in poverty was much higher than it is now." While there were differences of opinion between young and old, sometimes marked differences, we saw in the forums no signs of an "intergenerational war." But young and old felt that this is a common problem, something we must solve together.

3. Participants generally opposed making Social Security a means-tested program both before and after they deliberated. However, while opposing the concept of means-testing, many favored some incremental change that would have a disproportionate effect on those in upper-income brackets. Turning Social Security into a means-tested program could, apparently, threaten the program's political base of support. But majorities favored three changes worth considering: first, raising the ceiling on the Social Security tax (indeed, many did not realize Social Security taxes are paid on only about the first $61,000 earned each year); second, treating Social Security benefits like other retirement income; and third, adjusting the Social Security COLA.

4. Younger participants, in particular, feared that because of pressure from the deficit and demographics, Social Security will not be there when it is time for them to retire. A sense that, to save Social Security, change is inevitable was especially pronounced among those under 30. Again and again, younger participants said if nothing is done, Social Security will be bankrupt before they retire. An irresistible force, they felt, is the large number of baby boomers who will soon become eligible for benefits. Among those under 30, 73 percent were very concerned that "Social Security and Medicare funds will run out before long." A grandmother from New Jersey said, "Social Security is there for us. But when our children are ready [to collect], it won't be there, Social Security will run out of money by then." Fears based on demographics and the deficit played into a broader cynicism about government competence and trustworthiness.

5. There was great interest in exploring the idea of mandatory private retirement accounts, especially among younger respondents. While they raised serious questions as they discussed the idea, participants' comments suggest this is an idea whose time may be coming. Participants considered whether to replace Social Security with a Chilean-style system of mandatory private retirement accounts in which people would have to save for retirement but could control their money themselves. Large numbers, especially those under 30, wanted to talk about this concept.

Participants said private retirement accounts would give them more control over their savings, and 67 percent said it is very important that people take more responsibility for their own retirement. But the key reason why so many were attracted to the idea was, explained a moderator from Alexandria, "It eliminates the fear." Her high school students, she said, believed this was the only possible option that might be there when they reached retirement age. After the forum, she said, students "were optimistic because they had seen something to give them an answer" to what will happen to them if Social Security collapses.

As people deliberated, serious questions arose. Would everyone invest wisely or would some end up with too little to live on? Wouldn't transition costs be enormous? Would switching to a private system cut some of the bonds that hold society together. Should people's choices be limited? But these questions notwithstanding, interest in this idea remained high after the forums.

6. As people deliberated, one effect was crystal clear: they moved from thinking of Social Security as a senior's only source of income to seeing it as one leg of a three-legged stool. At the start of the forums, many participants spoke of Social Security as something designed to support retirees, to be their main, or even sole source of income. But as they deliberated and heard from others, participants increasingly came to see it as one source of a retiree's income.

7. In these forums, participants said our retirement system faces a crisis and agreed something must be done. People's thinking about retirement was markedly different from 15 years ago, when NIF first took up this issue. While leaders saw a crisis, the public was then just learning about the issue and the forums did little more than raise consciousness. But now, when many leaders see the problem as less urgent, there was a general sense among participants that the issue must be dealt with, with 59 percent saying they are very concerned that "Social Security and Medicare funds will run out before long."

Chairman BUNNING. I thank the panel for their input. And I would like to start the questioning.

Mr. Seidel, you mentioned that representatives from the Social Security Administration were at your forum when you talked about the changes.

Mr. SEIDEL. That's correct.

Chairman BUNNING. Did any of them participate, or did any of them offer suggestions on solutions for long-term solvency?

Mr. SEIDEL. I'm going to have Walt Downes answer that.

Mr. DOWNES. Mr. Chairman, my name is Walter Downes, and I serve as governmental involvement chairman for the U.S. Junior Chamber this year.

Our townhall meetings are an ongoing process, and the findings that we presented to the Subcommittee this morning were solely from that 1 year period. The townhall meeting process is still going on. The Social Security Administration is very much an active participant.

Chairman BUNNING. What does that mean?

Mr. DOWNES. We have a panel of invited guests. So there could be a representative from that State who would come to the townhall meeting, whether yourself or somebody else on the Subcommittee. We've had others, Jerry Weller from this Subcommittee in fact sat as a panelist in one of our townhall meetings. We would invite people from that local district to come and participate, whether it's a representative from the Social Security Administration, a representative from the House or Senate, to sit and be able to answer the questions of people from that town or community.

Chairman BUNNING. Then they weren't asked to offer solutions?

Mr. DOWNES. No.

Chairman BUNNING. All you were doing is throwing out the number of solutions that might be available?

Mr. DOWNES. Primarily, our purpose is to educate people. And obviously, our membership of 21 to 39 is Generation X, as well as part of the baby boomer generation. What we're looking at is trying to educate people. Because what we're finding is that people aren't aware of the severity of the problem. So we're out there educating across the country, saying here's the problems and possible solutions that are being offered. We as an organization don't support specifically, but we know there's a need for a solution and a need for action soon.

Chairman BUNNING. Mr. Seidel, you had mentioned the fact that in your forums, the people there suggested that those that, there would be a $100,000 cutoff. In other words, that there would be a means-tested benefit for Social Security. How many people in your forums made over $100,000?

Mr. SEIDEL. That's not one of the questions that we asked in the survey, what their income was.

Chairman BUNNING. That was not one of the questions?

Mr. SEIDEL. I'm sorry, 14.27 percent made over $80,000. That was the family income.

Chairman BUNNING. And how many of those think that means testing should be done? The reason I ask that is it seems unfair to ask those that would benefit, have a personal interest in benefiting from those who pay more or get less because they pay more. It's like somebody saying that the Social Security tax should go up from $65,000 to $125,000 or be uncapped. Sure, that's another way to raise money.

But the fact of the matter is, there's no extra benefits. If you pay the maximum now, you get the replacement income up to a certain percentage. If you uncap the Social Security tax on Social Security taxes, past the $65,000 plus that you have now, what extra benefits would those people get? There would be a transfer of money from one group of people to another.

Do you want to make it a social insurance program, or do you want to make it a welfare program? That's the big debate on that.

Mr. SEIDEL. Well, Mr. Chairman, what we could do, we do not have the 14 percent, their response to that question broken down separately. However, we would, for the benefit of the Subcommittee, we could have that broken down and send it back to you.

Chairman BUNNING. I'd like to hear whether any of the other panelists involved Social Security employees in the forums regarding this role of Social Security, and what should the role of the Social Security Administration be in this debate.

We've been trying to get them to come forward with solutions, and they seem to be reluctant. In other words, they are the administrators of the system. But we think that with all the expertise and experience they have, they ought to be speaking out and offering their own remedies for solvency.

Mr. SEIDEL. Mr. Chairman, you asked the question earlier, and I don't know if you got the direct response you were looking for, as it relates to what role had they played in the townhall meetings that we hosted.

Chairman BUNNING. I'm asking you what your opinion would be.

Mr. SEIDEL. Well, the opinion is, we like the role they play of being a factual type speaker. We don't look for, at least in the forums that we're presenting, we don't look for them to drive the debate, but rather to ensure that the information that's being laid out is in fact correct, it's factual, and that they can speak on different questions with the background and the information there to do it.

And we feel that the debate and the solutions should come from the American people, should come from those at the grassroots level, as well as, to ensure that there are less potential agendas of any administrations, to ensure their future employment or anything along those lines.

The debate that we host, and we think is healthy to host, is that, let the different organizations that have opposing points of views on the solutions, those are who we invite to our town meetings, so that every side of the coin is able to be shown and from that, then you have someone who is well educated on factual information, be-

cause you have the administration there to confirm numbers. You have the different organizations who maybe have some different solutions there to present their facts with great passion, and it allows the American people to make decisions for themselves.

Chairman BUNNING. On your survey, you showed about an equal number of split on people that would like to see the retirement age raised. Forty-seven percent wanted to raise it, and 41 percent opposed to raising it. Did the Social Security Administration weigh in at any time on any of that debate at all?

Mr. DOWNES. No. Again, they were there solely to answer factual questions.

Chairman BUNNING. In other words, they just told you that eventually it will go to 67?

Mr. DOWNES. Right.

Chairman BUNNING. Would anybody on the panel like to comment about the split? We've got a journal vote that we're going to have to run, and we're going to have to recess. But we're going to come back.

Mr. SEIDEL. This is which split, Mr. Chairman? The split, you said? Which split?

Chairman BUNNING. In other words, well, it's about 50–50 on this one survey. But the fact of the matter is, that is one of the many solutions offered in a lot of programs, is to raise the retirement age past 67. In other words, take it to age 70 over a period of time, in over a 30-year period.

Ms. MCSTEEN. Mr. Chairman, certainly I think if age is considered and an increase in age before retirement, that the corporate world and the marketplace has to enter into this decision. Because as people are living longer and will be required to work longer, then they must have an ability and an opportunity to continue working. Maybe not the same job they had throughout their younger life, but at least to participate and contribute to establish a better retirement.

Chairman BUNNING. Then you like our earnings limit that allowed them to earn up to $30,000 without being penalized?

Ms. MCSTEEN. Yes.

Mr. DOBLE. Mr. Chairman, I'd like to briefly comment on the first part of your question, on turning Social Security into a means-tested program or a welfare type program. People in the National Issues Forums were totally opposed to that idea. They see Social Security as something they pay into and that everyone gets back. They see it as a public program, and they don't want to turn it into a welfare program.

There was support for some kind of measures that might have a disproportionate effect on people in upper income groups. But the principle that underlay people's views about this issue was that Social Security should not be turned into a welfare program. That was very strong, loud and clear in forums across the country.

Chairman BUNNING. We'll stand in recess, and Barb, you can start when we come right back.

[Recess.]

Chairman BUNNING. The Subcommittee will come back to order.

I'd like to resume questioning. Ms. McSteen, how do you account for the fact that the findings of your poll, which with respect to pri-

vate accounts, are so different from the findings of others who testified today? Are the questions asked in your poll phrased differently, or how do you account for the difference?

Ms. MCSTEEN. We made every effort to make this a fair and open poll, and I would like to ask our pollster, Guy Molyneux, to answer your question.

Mr. MOLYNEUX. What we described in the survey to people, without any prior questions to sort of try to put them in one direction or the other, was to describe the personal security accounts proposal out of the commission, describe that in a very neutral way. We found 35 percent of Americans having a favorable response to that.

The Washington Post did a survey earlier this year where they asked people their response to privatization. They also got 35 percent support for privatization of the system. And I didn't hear any testimony today that I consider inconsistent with our findings. The forums suggested there is some attraction to this idea, especially among the youngest cohort of American workers.

We do find some young workers are attracted to the idea of some elements of privatization. What our survey did, and I don't know of any other that has done that, is to lay out a very specific privatization plan and get reactions to that. That's different than testing the very idea of private accounts, which does have some appeal. Because every real plan has to make some real tradeoffs here. It has to either reduce benefits for current retirees or raise taxes and so on. And there's no support for that.

Chairman BUNNING. Let me read the polling question that was in your poll. In your poll, the question is asked, "do you favor or oppose cutting spending on Social Security to reduce the Federal deficit." By May 1997, when this poll was conducted, both the Congress and the White House had worked out a budget deal. It was clear to everyone that Social Security cuts were not being contemplated to balance the Federal budget.

Why, other than to stir up politically driven anxiety, would a question like this be asked in your poll? And at that juncture, a question like this did nothing but distort the real issues confronting the President and the Congress regarding the budget agreement.

Mr. MOLYNEUX. This survey was conducted really just to explore attitudes fundamentally about Social Security. We asked prior to that if people wanted to spend more or less or the same on the program. Most Americans, including most young Americans, wanted to spend more. One other measure——

Chairman BUNNING. But I want an answer to my question.

Mr. MOLYNEUX. First, we found out, do you want to spend more or less or the same. We immediately followed by taking a tougher test, what if we were going to cut, for the value of reducing the Federal budget deficit, we know from our polls that most Americans want that deficit brought down. So if it was for that valuable social purpose, would you then support cutting.

Chairman BUNNING. But you knew at the time that there was no, there never was ever a suggestion in the budget agreement between the President of the United States and the Congress, any,

any contemplation of cutting Social Security benefits or dealing with the Social Security Trust Fund money.

Mr. MOLYNEUX. Right. This was simply a measure, we were just trying to find out how strongly the public support of Social Security, when they say they've heard it so much, they would oppose cuts even for the valuable purpose of cutting the deficit, nothing more or less. It wasn't asked for any purpose to try to play a role in the debate over the budget agreement. And this was a question you'll find in polls for NBC News, CBS, it's a standard polling question asked by many news organizations with no stake in this.

Chairman BUNNING. I don't think it has ever been asked in this respect, in this regard.

Mr. MOLYNEUX. We also asked, you'll see right below that, would you support cutting Medicare for that purpose. Eighty-five percent of the public disagree with that, even though in fact I think you'd agree the budget deal did do that.

Chairman BUNNING. Did what?

Mr. MOLYNEUX. Cut Medicare for the purpose of reducing the budget.

Chairman BUNNING. It cut Medicare? That's an interesting approach, since it raised the spending in Medicare almost 6 percent annually. Where did you come up with the cut?

Mr. MOLYNEUX. That's a debate for another day, I think.

Chairman BUNNING. Well, if you're going to make a statement, you'd better be ready to back it up in here.

I yield to Barb.

Mrs. KENNELLY. Thank you, Mr. Chairman.

Mr. Seidel, according to the Social Security Administration data, about 45 percent of workers have Social Security taxable earnings under $13,200 a year. Thus, the monthly contributions to a privatized system, of 1.6 percent of their wages, would mean they would be contributing about $17.60 a month, or $211 a year.

Have you thought about how employers would handle collecting and investing these small amounts? How would you collect it? Would you collect it once a year? And who would collect it?

Mr. SEIDEL. To answer your question, no, I have not contemplated how the money would be collected and who would be responsible for it. I think the role that we play as an organization and what we bring to the table and the benefit of being here is to be able to create forums back in your hometown and other hometowns around the country where our Jaycee chapters are building ball parks, where they're putting on the Fourth of July parade.

But to create a forum in which those who have different specific plans, both pro and con, are able to sit down and debate them and then allow a participant to ask questions just like that of them. And then survey them after they've gone through that process.

So I may not be the right person to ask that question.

Mrs. KENNELLY. Well, I'm very familiar with it. I come from Hartford, Connecticut, and we have a wonderful Junior Chamber of Commerce, and they do fantastic work and raising funds for wonderful causes. But we're in a pretty serious subject that we're talking about. This is a national forum here, because we represent the people of the United States of America.

We could have all the debate in the world on the future of Social Security, but one of the things about the Social Security Administration that we all can look to with great regard is that the administrative costs for Social Security is just 1 percent of its total, which is absolutely remarkable, and a wonderful record.

So there are many of us that are concerned that when you're talking about going into privatization, and you're talking about going into a whole new way of doing this, with these billions of dollars, that you've got to account for the fact that if you go into privatization, there will be huge administrative costs. And I think this is something maybe at your forums you have to consider.

Mr. SEIDEL. OK.

Mr. KEANE. Could I touch base on that for a moment?

Mrs. KENNELLY. Sure.

Mr. KEANE. Part of the thing we talked about, we're talking about creating a two-tiered system, basically, so basically to simplify it, a person making $10,000, between the employer and the employee, that person is paying $1,200 a year to Social Security.

Let's have $1,000 of that go into an account with their name on it. The other part would go into the general trust fund. We still maintain. This would be collected through Social Security, Social Security administrators. The money would be handled by a professional money manager, in the account.

Mrs. KENNELLY. But that would cost money.

Mr. KEANE. Such as a 401(k). And I'll get there.

Currently, the administrative costs of the Social Security now are very low. But a generational tax transfer should be very low. There shouldn't be a lot of cost with that.

What we're talking about though, is actually creating money. So there will be increased costs. Not dramatically increased costs. But some increased costs, but with dramatically increased return. So it's a cost worth incurring.

Mrs. KENNELLY. I heard you say that, Mr. Keane, and you said one of your goals is creating wealth for these Americans currently unable to do so.

Mr. KEANE. That's correct.

Mrs. KENNELLY. You implied from your statement you think diverting a portion of the current payroll tax into individual accounts would create wealth, is that correct?

Mr. KEANE. That's correct.

Mrs. KENNELLY. Well, I want to put on the record a statement by Herbert Stein, an economist. I got this from the Wall Street Journal February 1997, where he says, two important points are commonly missed in the current discussion of Social Security reform.

First, privatizing the Social Security funds would not add to national savings, private investment or the national income. It would not allow the system to earn more income without anyone else earning less. And second, if the purpose of Social Security is to provide a certain benefit upon retirement, then an investment policy that yields a probable, even though possible higher benefit, is not appropriate.

[The following was subsequently received:]

THE WALL STREET JOURNAL WEDNESDAY, FEBRUARY 5, 1997

Social Security and the Single Investor

By HERBERT STEIN

Two important points are commonly missed in the current discussion of Social Security reform. First, privatizing the Social Security funds would not add to national saving, private investment or the national income and would not allow the system to earn more income without anyone earning less. And second, if the purpose of Social Security is to provide a certain benefit upon retirement, then an investment policy that yields a probable, even though possibly higher, benefit is not appropriate.

The first point may be easily seen. Private investment equals the saving available for private investment. That is equal to private saving minus that part of private saving required to finance the federal deficit. (For simplicity I include with private saving state and local government surpluses and the inflow of capital from abroad.) The federal deficit has two parts—the deficit in the rest of the government, other than Social Security, which I call ROG, and the surplus in Social Security. So private investment equals private saving plus the Social Security surplus minus the deficit in ROG.

Private Savings

Here is the key point: The amount of private investment does not depend on how the Social Security surplus is invested. The more of the Social Security surplus is invested in financing the ROG deficit, the less the ROG has to borrow from the private saving available for private investment.

I will consider some possible qualifications to the argument. But up to this point, privatizing Social Security investment has not added to private saving. Therefore, it has not added to total investment and has not added to the national income generated by the stock of productive capital. But still, everyone will say, the Social Security accounts will be invested in assets with a higher yield than government bonds and will earn a higher income. How can this be? Where will this higher income come from if there has been no addition to saving, investment and national income? Since there are only three players in this game—the Social Security accounts, the ROG and private savers—the gain to Social Security must come from one or both of the two others.

Private savers will have a portfolio more heavily weighted with low-yield assets—government bonds—and less heavily weighted with private high-yielding assets. They will have a lower-yielding portfolio than if the Social Security accounts had bought the government bonds. But in order to induce private savers to make this shift in their portfolios—to surrender some of the private assets to the Social Security accounts and take on more of the government bonds—the yield of government bonds will have to rise, increasing the burden on taxpayers, or the yield of private assets will have to fall, or both.

Some people think that if workers manage their own Social Security accounts they will learn to love finance and will save more. It seems to me equally likely that promised a larger Social Security benefit they will decide to save less in other forms. It may be that if workers see a larger and more secure Social Security benefit deriving from their work they will work more. Yet if the government has to impose higher taxes to pay the costs of higher interest rates on its borrowing, that may inhibit work and other income-earning activity. Possibly, if the government does not have a captive market for its bonds in the Social Security accounts, but has to borrow entirely in the open market, it will be more cautious about deficit spending. Possibly, but I wouldn't bet on this effect being very large.

Privatization per se does not add to the national saving, but there may be other arguments for it. One could argue for a redistribution of income from other savers and taxpayers to workers. But one should not think that there is any free lunch here.

Now, to the question of the proper criterion for investment of Social Security funds collected by a tax on wages. Suppose there are two kinds of investment. One will yield at retirement a certain 50% of the retiree's final salary. The other will yield a probable 60%, with a 50-50 chance of yielding zero and a 50-50 chance of yielding 120% of the final salary. Which of these is suitable for a Social Security system? The example, to be sure, is extreme. But even if on average over long periods of time investments will all yield a specific return, the returns earned by particular investors in particular portfolios over particular periods differ enormously.

One can say that the workers are consenting adults and if they choose investments that will make some of them very rich and some very poor, that is up to them. But if you say that, you have to ask why we have a Social Security system, with mandatory contributions, at all. Why not just leave the workers free to save or not and to invest whatever they save in the way they like? If there is no social interest in the income people have at retirement, there is no justification for the Social Security tax. If there is such an interest, there is a need for policies that will assure that the intended amount of income is always forthcoming. It is not sufficient to say that some people who are very smart or very lucky in the management of their funds will have high incomes and those who are not will have low incomes and that everything will average out.

I find it helpful to think of the Social Security system as having two parts. One provides an assured equal minimum retirement benefit to all workers. The investment for this part would have to be in very secure form, probably involving some government guarantee. But this part would be much smaller than the total system we now have and could be financed by a much smaller payroll tax.

Defining Public Interest

What is the rest of the system and the rest of the payroll tax for? One possibility is that there is some national interest in the size of the retirement benefits that individual workers receive, beyond the flat minimum just mentioned. In that case it would be necessary to control the investment and use of the funds generated by each worker's mandatory contribution to assure that the desired retirement benefit is forthcoming.

But we could say that there is no public interest in the retirement benefits workers get beyond the flat minimum already mentioned. In that case workers should be allowed to manage their savings as they like. But in that case it is unclear why there is any mandatory contribution to Social Security, beyond that needed to finance the flat minimum. Let the worker decide how to manage his savings and how much to save.

Mr. Stein, an American Enterprise Institute fellow, chaired the president's Council of Economic Advisers, 1972-74.

Board of Contributors

We can't just say that some smart or lucky people will have high Social Security incomes and others will have low incomes and that everything will average out.

So what Mr. Stein is saying, there is no new wealth created by simply diverting Social Security money into individual accounts. Now, are you arguing with that statement?

Mr. KEANE. I'm arguing that there's no denying that if you give a person a chance to save money, and if that is able to grow through compound interest, that person who had no wealth will have wealth. A person making $10,000, he or she does not save a penny today. They simply can't. A person making $50,000, a family making $50,000, has a very tough time saving. You're paying rent, you're paying college loan, you're paying car loans. At the end of the day, you're not really saving anything.

What we're doing though is saying, let's take some of the money that they currently are paying, and let's let that grow. That individual, that family, will have more wealth.

Mrs. KENNELLY. I hear you, and I heard you in your statement, also. And you can't have it all ways. When you talked about Ms. McCarty, a dignified, wonderful woman who chose her way of living, and lived very simply, was able to save by compound interest $150,000.

I think you then went on to say that Ms. McCarty, if she had had children, could have left that money to her children. I'm a mother of four children. And she would not have been able to save that money if she had had children. [Laughter.]

Mrs. KENNELLY. You have to feed and clothe those children.

Chairman BUNNING. Would you yield, Barbara?

Mrs. KENNELLY. Of course, I'll yield.

Mr. KEANE. That's the point exactly, though. That woman cannot save with a family of four. It's very difficult.

But what we're suggesting is to take the taxes she is currently paying and allow that to grow. She was very fortunate, because she was very smart. She grew up in a society where it was a saving society. We are now a consuming society. We need to adjust for this reality.

Mrs. KENNELLY. And that is exactly what Mr. Stein was saying, that you have to either consume less or save more. You can't just transfer funds.

Mr. SALISBURY. Could I add one brief comment on that?

Chairman BUNNING. Go right ahead.

Mr. SALISBURY. We have developed at EBRI an economic forecasting model that supports both contentions in essence. The real issue is whether or not you deal with the transition costs. If $1,000 of my current taxes goes into an individual account, $1,000 in taxes has to be raised some place else, unless my mother and father's benefit is going to be reduced.

In the Stein notion, if you include the transition cost, you essentially don't end up with the addition to savings. If you get to the end result by increasing, essentially my example would be you increase payroll taxes to 17.4 percent from the current 12.4 percent, in order to finance the individual accounts, then you can get the result of additional real savings.

Why? Because you have dramatically——

Chairman BUNNING. Mr. Salisbury, I want you to come up here and advocate that. [Laughter.]

We'll see how popular you will be if you ever get elected. [Laughter.]

Mr. SALISBURY. Mr. Chairman, I was not advocating it, no.

Mrs. KENNELLY. Mr. Chairman, may I end my line of questioning by just saying, let's none of us forget that present day workers are working for present day retirees. And when we're talking about all these savings accounts, somehow that translation has to always be remembered.

Chairman BUNNING. Mr. Johnson.

Mr. JOHNSON. Thank you.

Are you through, Barbara?

Mrs. KENNELLY. I am, yes. He says I am. [Laughter.]

Mr. JOHNSON. Thank you.

Mr. Keane, you know, you talk about knowledge and how you're trying to educate the public and engaging them in the debate. I agree with you. But based on your experience, what's the best way you think we can do that? And I'd like comments from the rest of you, if you differ.

Mr. KEANE. Sure. And I would suggest that we're only touching the tip of the iceberg. The way we work is, we go into communities, we go to the Chambers of Commerce, we go to the rotary clubs, the schools, colleges, churches, we even go so far as to go door to door talking to people.

Right now, we do about 60 events per month. This month of October alone, we're doing 60 events across the country. As we speak now, we have four events going on across the country, at this moment right now. And that is only the tip of the iceberg. We are going to people and talking to them like this, telling them about the real problems of retirement security and about creating wealth for those who have none.

They always say the best way is to go on the television. You go on television and you spend $25 million on television, you get to everybody. But under that, we have to get people to have a real understanding of why we need to retain a safety net, why we need to close this gap between the rich and the poor, and why we need to secure retirement.

If you go to people today and ask them, how much are you going to have when you retire, most of them don't know. I hope I get Social Security. How much will you take home from Social Security? I don't know. OK, you'll probably get around $750. Oh. How much do you take home right now? Well, significantly more than that. So what else are you going to supplement that with?

They don't have savings, they don't have pensions. The vast majority of American people are going to be relying on Social Security as their sole source of retirement income.

Mr. JOHNSON. Yes, but when you ask them if they want to raise the withdrawal amount or increase the tax, are they aware what they're paying in taxes overall?

Mr. KEANE. Dramatically no, I'd say. I mean, one of the fun things is to go to people just out of college who have actually just gotten their first paycheck, and ask them what all these line items, what is FICA, what does that mean. It's a dramatically huge tax, and they don't know what it is.

Mr. JOHNSON. But that's not the only tax. You put them all together, and the people in the United States are paying upward of 50 plus percent of their income on taxes.

Mr. KEANE. I agree.

Mr. JOHNSON. So when you talk about raising the FICA tax, I'm talking about increasing the overall burden.

Mr. KEANE. Excuse me, no, I'm not talking about raising it.

Mr. JOHNSON. No, I know you're not, but some of these guys are.

Mr. KEANE. Our point, though, Congressman, our point is actually that the American people can't afford to have a tax put on them. There are those who would suggest Oseola McCarty is an amazing woman. And let's put a savings tax onto everybody. We won't touch Social Security. We'll put a savings tax.

The real point is, it's not that people don't want to save. They just don't have the money to. If you put a savings tax on top of what they're already being taxed, you're not doing them any favors. The money is gone.

So we've got to find a way to take the money they have, the money that they're already spending, and turn that into a savings plan. We can do that through Social Security.

Mr. JOHNSON. Well, we need to take part of the Social Security fund, but let me ask another question. Are you federally funded at all?

Mr. KEANE. No, we're not.

Mr. JOHNSON. Ms. Knighton said she wasn't. Is anyone here at this table federally funded?

[No response.]

Mr. JOHNSON. Privately funded, all of you? Every amount that you spend?

[No response.]

Mr. JOHNSON. That is encouraging.

Ms. KNIGHTON. I'd like to respond to your question about how best to engage the American public. Through my experience, I've come to firmly believe that the best way to do that is to allow the American public to have an opportunity to engage with each other.

Because in addition to facts and information and expert information and dissemination of information that's been gathered in other sources, it's incredible what you can see happen before your eyes when people have a chance to come together and talk about these competing convictions that they have, and to weigh them with the sense of fairness that most American people really bring into this discussion. They do have a sense that we're in this together when they have a chance to talk to each other about it.

That's one of the things that I've been able to see in National Issues Forums, when we really do work through a range of different policy options. Obviously, people have different views about each one. But when they come down to it, they want a chance to find out, "How would what I advocate affect you? How would what you advocate affect me? What can we find as a way to work together on this, so that we can be fair to the greatest number of people?" More opportunities like that, I think, would help people come to an informed decision about what they'd like to do.

Mr. KEANE. I think that's a very good point. We find that as well. There is a discussion about the values of what Social Security is all about. It is about making sure that nobody lives in poverty, that everybody has some source, some sense of being able to live an American dream.

Mr. JOHNSON. Mr. Doble.

Mr. DOBLE. Just very quickly, Mr. Congressman. There's a great deal of cynicism in the country. So when information is presented to people, people have a tendency to discount it. In the forums people listen to each other, as Betty Knighton was saying. And the attempt to talk in bipartisan or nonpartisan terms has a great impact on people.

I'd also just like to comment quickly on one of Congresswoman Kennelly's questions. There's a great deal of confusion about what to do about Social Security, and about the details of what we're going to do, and about how that would be fair to people. But there's a great receptiveness to talking about this issue, and discussing it and trying to arrive at some kind of common ground for action that would be equitable for all of us.

Mr. JOHNSON. We're having a little trouble getting common ground.

Mr. DOBLE. Yes, sir, I understand that.

Mr. JOHNSON. Mr. Salisbury, your testimony includes a finding that 68 percent of Americans are not confident that Social Security will continue to provide benefits of equal value to the benefits re-

ceived by retirees today. What does that statement really mean, in your view?

Mr. SALISBURY. It means that they have been inundated by public attention with the words bankruptcy and insolvency. And in real life, when somebody has gone bankrupt, it means they have nothing. And essentially, they've been talked to about the trust fund as if that is the difference in Social Security, rather than its being an income transfer, Ponzi scheme, whatever word you want.

But 12.4 percent is going to keep coming in and keep going out. So the overwhelming amount of what they've been told through the public process of the media and all is Social Security is in serious trouble. So it is very natural and realistic for them to have a response that says, I am worried that I will not get a full Social Security benefit.

Mr. JOHNSON. But with trust fund and debt related instruments, do they understand that? It is in trouble, isn't it?

Mr. SALISBURY. Well, I guess the issue is, their statement is very realistic. But if you put it in the context of cash flow, if you simply keep the tax at 12.4 percent, the Social Security actuarial numbers, even under pessimistic assumptions, say that hundreds of billions of dollars a year will come to the government in revenue in the way of Social Security taxes, even if the trust fund is zero. And that will then flow out in benefit payments, unless it is moved into individual accounts, in which case somebody will have to make up that difference.

And Mr. Keane says he's not advocating increasing taxes, then he must be increasing taking the benefits away from current retirees. Because the money has to come from some place. And the public ends up in the midst of that discussion, as all of us have stated, becoming very, very confused.

And their confusion leads to anxiety, that leads to uncertainty, that leads to angst which says, I'm not sure what all this means, except I should be worried. Therefore, worry must mean, I may not get my full benefit.

Mr. JOHNSON. Thank you. Our time's up.

Chairman BUNNING. Mr. Hulshof.

Mr. HULSHOF. Thank you, Mr. Chairman.

Thank you all for being here. Mr. Keane, you're exactly right, as far as this whole process of education. As you know, we've begun to commence a national dialog on fundamental tax reform, and we're trying to have that dialog with the American people. Ms. Knighton, also Mr. Doble, thanks. I assume you're responsible for this very good publication.

And also Mr. Seidel, we're getting ready to participate in a town forum or a town meeting working with the Junior Chamber. So I applaud everyone's efforts. Because I think we need to have this, a nonemotional discussion.

That having been said, I know the Chairman asked you, Ms. McSteen, about the polling that was done. Let me give you an example. When the U.S. Senate was discussing and debating whether or not to enact a constitutional amendment that would require a balanced budget, our office was flooded with postcards, some 700 postcards, from your organization. So I applaud your grassroots efforts on getting the word out.

And yet, people were urging us in the House to defeat the Senate's amendment, or their discussion. Of course, we weren't contemplating that or discussing it. But because they were afraid, in these postcards, that we were going to do something with Social Security. And clearly, the debate was not going in that direction at all. The public statements had been made by everyone that we want to be fiscally responsible, we do not want to compromise Social Security.

So I guess I'm at odds. If we need to have a dispassionate argument or dialog about what we should do, isn't this a politically motivated effort to continue to make Social Security the third rail of politics. I applaud the Chairman even for us discussing the future of Social Security. It used to be taboo, I take it, around here. I was addressing a group this morning of interns here on Capitol Hill. That was their first question, what are we going to do about the future of Social Security.

So the fact that we're getting to discuss it at all is good. But isn't this counterproductive? Ms. McSteen.

Ms. MCSTEEN. I think it's extremely important that we do try to communicate what's going on, and what's going on in the Congress as well as what's going on with Social Security in this case. Certainly, there is so much material that goes out, and so many clips and sound bites, Social Security going broke. In the same breath, talk about balancing the budget, and how we're going to do it. And Social Security is said to be a drain on the budget.

All of that becomes very complicated for an individual. I think we have to continue to work together to get factual information. I think that's what all of us are saying, that the public understand, and certainly Social Security, is an intergenerational program. We don't talk about that very much, but about 38 percent of Social Security benefits go to beneficiaries other than retirees.

So we must look at Social Security as a program that benefits young workers and their families in the event of disability and/or death. And it's difficult to do. It can easily, any word can be misinterpreted, depending on what one wants to hear, for one thing, as well as what the facts really show.

Mr. HULSHOF. I absolutely agree. And I think, and Mr. Salisbury, the reason that some of us were late getting back from the vote was, we were discussing who was it that was misspeaking about the little green men from Mars out on the stump, and which one of us was out there talking about this.

I'm just concerned that as we have these discussions, and I think they're very fruitful, that stirring up anxiety through politically driven agendas I think puts us at cross purposes. So I would hope that we could continue to have these discussions.

Town meetings, I find, are the truest sense because I try to engage and act as a moderator, and get discussion among the group when we talk about personal accounts or other options or alternatives. So I really learn from my constituents in that way.

I appreciate the fact that you all are here. Quickly, Mr. Keane, I did have one question. Discussing the option of private savings accounts, people assume they have these individual accounts, and you've found that not to be the case?

Mr. KEANE. Yes.

Mr. HULSHOF. Can you help give me some ammunition when folks at home ask this question. What should I tell them?

Mr. KEANE. You have to tell them the truth. That's absolutely not the way it works. It is an intergenerational tax transfer. You're paying today to support your father in retirement.

Incidentally, when my father was working, he thought he had a personal savings account. And then he retires, he realizes, oh, it's his children that are paying for his retirement.

That's just the truth. It's the way the system was set up. It has worked. There are dramatic problems with it continuing to work, just simply of demographics. But that's the way it is.

And when you tell it to them, people think, there's got to be some better way. It just sounds unsustainable. To tax a worker to support a retiree, we can't do that.

Mr. DOBLE. Could I just comment on the first part of your question, Congressman? Mr. Chairman.

Mr. HULSHOF. Go right ahead.

Mr. DOBLE. Thank you.

What we found in the National Issues Forums is that information is not enough. You cannot expect to give people facts and figures and have them make a decision in a public way, as a citizen. They need to have choices. They need to believe the choices are credible. They need to see the tradeoffs, the consequences, the costs. They need to have time to weigh that, to deliberate, to hear how it would affect others, other than themselves.

And only after all of that takes place, which can sometimes take quite a long time, can the public really do what it's supposed to do as a public, which is not so much answer the technical issues of what do we do with $200 worth of savings, but provide the broad principles or guidelines within which they would like to see policy made and carried out.

Chairman BUNNING. Mr. Portman, the champion of the IRS. [Laughter.]

Mr. PORTMAN. We thought the IRS was difficult. This is a lot more vexing. [Laughter.]

It is, and I appreciate all of you coming here today to give us your reports from your polls and from your town meetings, your findings and so on. This is very helpful.

I would say to Ms. McSteen, having been the recipient of many of those postcards, that I agree with your analysis, which is that there are a lot of sound bites here in Washington, it's all very complicated, particularly for older Americans. Therefore you and other groups have the responsibility for providing information in a clearer way that is not only accurate but portrayed in a way people can understand.

I didn't think, as one example, those postcards about the balanced budget was fair. And I think that is a challenge that all of you have, if you are interested in responsible public policy, to help us through this process. Because it is complicated. Most people don't understand Social Security. Most Members of this Subcommittee probably are getting up to speed, I certainly am, on how it precisely works and affects not just older Americans, as you indicated, but many other Americans.

Let me ask a couple of quick questions, if I could. First of all, Mr. Salisbury, your notion that folks are worried. I'm concerned that people aren't worried enough. This is one of the things I think we need to talk about here. There are three legs to the stool. One is Social Security. One is the employer-sponsored pension accounts that are out there, and the other is private savings through other means.

My concern is that many people are not saving for their retirement outside of the Social Security system, particularly with the 401(k) plans that are out there now. The simple plan, which I've been trying to champion, is a fantastic idea to get small businesses to offer retirement savings. Still, in the anecdotal evidence I'm getting from back home and around the country on the simple plan that we passed over a year ago, there are many employees who are not stepping up to the plate and taking advantage of this wonderful opportunity to get their employer to make contributions on their behalf and save.

So my only comment, not really a question, is that we all need to do more not to create unnecessary anxiety out there, but to convince people that they do need to save for themselves, for their own retirement. Social Security was not meant to be the sole source of retirement income. It is for many people. And, people need to take advantage of these private plans. Small business, particularly, needs to do more in offering them, and we've now offered a simplified plan for it.

I was interested, in your poll, from the Junior Chamber of Commerce, about this notion of radical change versus major change, 27 percent said radical change, 52 percent said major changes. What is radical versus major? We have to come up, unfortunately, with public policy. What does that mean? How does that relate, as an example, to the private savings accounts?

Mr. SEIDEL. It's the Junior Chamber's poll. Let me clarify that.

Mr. PORTMAN. It's a good poll.

Mr. SEIDEL. I think it's difficult for me to answer that question, to be honest with you. Part of the reason is because I think when you put a question forth like that, what I may believe is radical change may be different from the person sitting next to me.

So perhaps if the suggestion of this Subcommittee is that we further define that question, we'd be happy to do that. We look to be used as an instrument in this debate.

However, I will tell you that in our townhall meetings, and I will applaud the National Issues Forums for the work that they're doing as well, because we agree. We do think that the added benefit of having the different organizations who support a radical change of going to a privatized system or partially privatized system or increasing these different proposals that are floating around, we think it's important to have somebody there who's able to talk about them factually.

But most definitely, the ability for the general public to debate it, in that forum, is really where people start to mold some educated opinions. Because they do take into account, then, my grandparents, your grandparents. They also take into account when the issue gets brought up that it's not just retirees who are receiving benefits from Social Security.

But to answer your final one, I don't think I can honestly answer that question. Because I think radical to me is perhaps not radical to the person sitting next to me.

So I will tell this Subcommittee that we will make an attempt to further define that question.

Mr. PORTMAN. That would be helpful, I'm sure.

Ms. Knighton, Mr. Doble, there are a number of questions I'd like to ask. Let me just address the most controversial one.

Within Social Security's controversial means testing, your poll indicates that people generally oppose making Social Security means tested. But then you say they favor some incremental change, like a disproportionate impact on upper income brackets by raising the ceiling on Social Security, treating benefits like other retirement income, adjusting the COLA income levels, which in essence would be some sort of means testing.

How do you differentiate the general opposition to means testing with this specific interest in doing some things that might lead to that?

Ms. KNIGHTON. I can speak about the forums I've personally moderated in West Virginia, then perhaps John can add the national view on that, which I think was very similar. When people talked about means testing, and there were some who favored it, especially at the beginning of the forums. (Actually, our results are not from a poll, they are the result of some thought people put into this issue after at least a couple of hours deliberation.)

Most participants thought that was not the way the promise was originally set up, that this was not meant to be and, "I pay into it and I get it back if I need the system." It will be, "I pay into it and I get it back." That was the idea behind most of their concerns.

When somebody in the forum would say, "Well, look, if they don't need the money, and we're running short of it, let's just not give it to them." And then somebody would say, "Hey, wait a minute. That's not what they told me when I paid this money all those years ago."

Then the overriding concern there was, "Well, OK, we do have to be fair about that. And so I really think it was a general, deep concern about being fair and keeping a promise that was made to taxpayers when they paid these funds, that was a primary reason why most people didn't support the idea of means testing.

Now, some of these others, which most people considered much more minor adjustments, like looking at how the COLA is figured, or perhaps taxing Social Security benefits a little differently than they are now, they saw those as adjustments to the system that didn't basically change the underlying promise, which is that this is an insurance program, not a welfare program.

Mr. DOBLE. Congressman, if I just might add quickly.

Mr. PORTMAN. You'll have to ask the Chairman. He's in a generous mood today. [Laughter.]

Chairman BUNNING. Mr. Portman, I wasn't watching the light. Go ahead.

Mr. DOBLE. Thank you. Just very quickly. The American people are very pragmatic people. When we presented them with this problem in the forums, they tried to wrestle with a pragmatic an-

swer. And they saw some incremental steps, like adjusting the COLA and raising the income tax level on taxes, as reasonable incremental steps that could be taken.

There was no overwhelming sentiment to soak the rich. No overwhelming sentiment to transform the system, as Betty said. A very strong conviction that this is an insurance system, and it should remain an insurance system. I pay in, I should get out. It should be for everyone. It's this pragmatism that seems to be kind of in conflict with their sense that we shouldn't means test the program that I think explains what appears to be a contradiction.

Chairman BUNNING. Let me follow up on some questions. You saw no signs of intergenerational war? I have a problem with that, for the simple reason that my mail and my constituents don't seem to agree with you at all, particularly those that are 40 and under. The 40 and under, think there ought to be some other solution than the one that's being offered, that the continuation of Social Security and guaranteeing the benefits at age 65, 66, 67, depending on how old they are.

Ms. KNIGHTON. That was the finding from the National Issues Forums. I would certainly agree with that finding, in terms of the forums that I convened where we had people who were 18 years old, 25 years old, 80 years old, together in the same room talking about that.

It is true that younger people were much more interested in exploring the idea of private savings plans. In general, I think, because they have this fear that the system as it exists now may not be there when it's time for them to receive benefits. So if this is a way that we can explore financing a system more effectively, that will be there when we need it, then they were willing to explore that.

However, they don't see the older people as ones who are soaking their money or taking things away from them. Those older people are their parents and their grandparents. And the older people talking about Social Security said "This is fine for me now." As a matter of fact, many of the older people in our forum said, "We're getting more from Social Security than we expected. This has been good for us."

But even as they said that, they also said, "But we're worried that our grandchildren won't experience the same level of financial security that we have through the system." So what I sensed in every forum that I moderated was a real concern generation to generation.

Chairman BUNNING. Let me ask the question to all the panelists. We up here know that there is an immediacy. In talking to the public, do you feel any immediacy in fixing what is considered a real problem in solvency? And whether you will admit to that or whether you won't, we know that there is a problem. And the sooner we can address it here, bipartisanly, with the leadership of the administration, because it's going to take that kind of leadership if we're going to do it and not have one side beating up on the other side.

Do you feel that in your discussions?

Mr. SALISBURY. Mr. Chairman, in our work, in both polling and public discussions, there's a clear understanding that either taxes

have to go up or benefits have to be cut. But there is a long term, if you will, a balance problem. Second, these are the intergenerational conflict, where you have a political problem and where the public is, is that the young, much more strongly than older people, want for themselves an individual account alternative.

But, and this is where your political problem arises, they do not want the benefits of those retired today to be cut.

Chairman BUNNING. What if we come up with a solution that says, over the next 30 years, we will allow a transition and guarantee the benefits for those that are 40 and over, up to age 70. We will guarantee the benefit as it accrues, including the COLA and everything else that might happen.

But for those under 40, we will give them an option. And every year we have a balanced budget, and we have a surplus, we will use that surplus to allow what we call required retirement accounts, and allow a portion of that to be invested for those 40 and under into privatization accounts that we would control to the extent we control 401(k) for Federal employees, with more than three options.

Mr. SALISBURY. We asked those types of questions beginning in 1991. We most recently asked it in 1995. These were all through Gallup surveys. And in those surveys, the concept of adding that voluntary type of element is supported across the age spectrum by a majority of the population.

Mr. SEIDEL. Mr. Chairman, if I could, representing the largest young persons' organization in the country——

Chairman BUNNING. My family is larger than that. [Laughter.] Go ahead.

Mr. SEIDEL. The question you asked earlier regarding the debate between the young and the old on the issue, I will say this, that overwhelmingly, our membership, and I speak from a little bit different perspective beyond our townhall meetings, I can speak from our membership standpoint. Our membership wants to see the problem fixed.

There are many who feel that, when we start talking about means testing and, that wasn't the deal we made. There are many who feel like, there are some who, years ago, they made a bad deal, to be honest with you. That tends to be some of the thought process.

However, there is no one——

Mrs. KENNELLY. Who made a bad deal?

Mr. SEIDEL. Well, when you start to ask the question of today's people who are recipients of Social Security, sometimes when the question gets raised of means testing, and the individual who would be put through that test who is making x amount of dollars, who would not benefit from a means-testing program, they say, wait, we're retired now, we made that kind of money, that's not fair, that's not the deal we made. There are many who feel like, as it relates to us in the younger generation who are paying into the system, is that perhaps you made a bad deal.

Now, whether that's true or not, I don't know. The fact of the matter is that there's problems. Otherwise, we wouldn't all be sitting here right now.

But even with that, overwhelmingly, I can tell you that——

Mrs. KENNELLY. The problem is the demographics.

Mr. SEIDEL. That's fine. But regardless of that, I can tell you overwhelmingly that the younger generation, they don't want to leave anyone hanging out to dry. Because it is their grandparents. It is their parents. And as a result of that, I don't think there is an intergenerational war going on. I really don't.

I think that there is a great deal of concern about, will the benefits that this younger generation will ultimately receive, what will the value of it be.

Chairman BUNNING. We understand that the dollars are not constant, and there is a fluctuation. I think all people who receive Social Security benefits understand that. When the COLA was added, that was supposed to offset. Whether it did or whether it doesn't is another question.

But I believe that without any question, the deal that was made turned out to be a heck of a lot better deal than they thought it was going to be when they made it. Not the opposite. However, that changes when you apply means testing.

Mr. SEIDEL. I don't know that I disagree with that, Mr. Chairman.

Chairman BUNNING. I can give you chapter and verse on individuals, but Barb, it's your turn to question. Go ahead.

Mrs. KENNELLY. We go along this, and we talk about the third rail and the hearings and all the rest. The point is that, as I said, the demographics don't lie, and we've got to do something about this.

But I was fascinated when I read an article months ago in Public Agenda. It talked about how half the people say they don't think Social Security is going to be there. And yet they have less than $10,000 in savings.

Have you all found that?

Mr. SEIDEL. Yes, absolutely.

Mrs. KENNELLY. So it's fascinating to me that we've got these grand ideas, and yet going back to the comments and the statements, why do we have Social Security, it's because people got old and they didn't have any savings. So I don't think we've made a heck of a lot of progress at this point, we just have more people coming into the system.

But can you help me a little bit on this? If you have all these people saying it's not going to be there, why aren't they saving?

Mr. KEANE. Can I address that? That's exactly——

Mrs. KENNELLY. I mean, I know why they're not saving. Why do you think they're not saving?

Mr. KEANE. The majority of people are saying, Social Security won't be there. They have no savings. If they get Social Security, they are going to wind up with $750 a month, average. That means, we are committing them to living in retirement in poverty. We're going right back to where we were in 1934.

That's why we can't just simply raise taxes or cut benefits and save the system as it is right now. If we do that, we still give them just $750 a month, no savings, no pension. An entire generation will be right again, living in poverty. That's why this has to be

changed much more than that. That's why this has to be turned into a savings plan.

The three legs of the retirement stool just aren't there. There is now just one leg. And that's going to be through Social Security, to make it a savings stool. Let's give everyone a chance to actually earn for their own retirement.

Mrs. KENNELLY. But it was never meant to be that kind of system. It had to have the three things to work.

Mr. KEANE. I agree completely. That's what's happened in the past 20, 40, 50 years, is that savings have gone down, pensions have gone down. And now everyone is just relying on Social Security. The stool has broken.

Mrs. KENNELLY. Don't you think we could talk about charge cards and other things to fix some of this, rather than just talk about——

Mr. SALISBURY. Mrs. Kennelly, if I could momentarily, because——

Chairman BUNNING. But I want you to know that 40 percent of all retirees depend upon Social Security as their principal retirement program.

Mr. KEANE. Correct.

Chairman BUNNING. So we can't get away from that. You may have 17 different reasons why it's occurred.

Mrs. KENNELLY. That was my point, Mr. Chairman.

Mr. SALISBURY. Could I respond one step, and it goes to Mr. Portman's comment as well. We released our seventh retirement confidence survey last year. The sixth was part of a Public Agenda joint project called Promises to Keep, which was the report before Miles to Go.

Mrs. KENNELLY. It's an excellent report.

Mr. SALISBURY. What they indicate very, very clearly is the public understands the need to save. The most common reason they don't is because they say they do not have the financial wherewithal to do so, given all other expenses.

What does come through is key differences, for Generation X, particularly. They do not anticipate getting any substantial portion of their income from Social Security. This is a key change of the last 5 years. That recognition is beginning to show up in Generation X saving at higher rates than any previous generation at early ages, and accumulating at greater rates.

Second, there's another key point of recognition of Generation Xers. Nearly three quarters of them believe that even at the point of "retiring," they will have to continue working part time. That compares to 12 percent of those within 5 years of retirement.

So in terms of the recognition of what life may be, and frankly of current retirees, we're seeing the rate of part-time work go up fairly radically, you're beginning to see recognition set in that if Social Security's there, it's going to be a basement, or at best a floor. What was always frankly intended, from public opinion polls, wasn't always understood. And the young are beginning to move in that direction.

With reference to two statements just made, and the facts speak for themselves, they can be presented to the Subcommittee in volume, the number of Americans with pension plans, 401(k) savings,

and so forth, is higher than at any time in the Nation's history. The number of retirees reporting income from the other two legs of the stool today is higher than at any point in history. And based on actions taken by the Congress over the last 15 and 20 years, all of those numbers are going up, simply as part of that.

That is not going to deal, to take your point, sir, with the 40 to 60 percent of the population today that depends almost totally on Social Security. That number is coming down a little bit. But the prospect, even for the Generation Xers, is that 40 to 50 percent of them will primarily rely on Social Security. Part of that is a number that is in the statistics of the current Social Security population.

Your number of the 43 percent that earn less than about $12,000 per year is, there's 36 million that don't have any attachment to the work force beyond about 800 hours per year. No defined contribution program, no program that provides insurance, and some level of cross support is going to allow them under any plan to create wealth or adequate buildup.

Mr. DOBLE. Mr. Chairman, could I just briefly comment?

Chairman BUNNING. Go right ahead.

Mr. DOBLE. Thank you, sir.

With most issues, we find that the more people understand about the issue, the less cynical they become. With this issue, we find that the more people understand, the more cynical they become. They feel, as someone said, people are in effect ahead of the government on this issue. The government is doing nothing about an impending crisis. We are driving toward a cliff, and if we keep driving down this road at this speed, we are going to fall off.

Mrs. KENNELLY. Could I ask a question?

Mr. DOBLE. Just one other comment, please, if I may. It is a comment that someone made in the forum about the Social Security Trust Fund. It was no darn trust, no darn fund.

Mrs. KENNELLY. I was going to ask, Mr. Doble, when you were taking your information, what was the reaction when you told people that if we went into the privatization system that it could well raise the deficit or increase taxes?

Mr. DOBLE. Congresswoman, when people considered the issue of privatization in the forums, they were very interested in them for the reasons that I outlined. But they had some very serious questions about it. It was clearly something that they wanted to talk about, especially the younger people. But clearly something that they had very, very serious reservations about, especially the transition costs, especially what it might do to the deficit, how do we get there. It was a subject that they wanted to deliberate about, to talk about, but not something they were ready to decide about.

But the interest, at the end of the forum, after they deliberated, was still very, very high in this idea.

Ms. MCSTEEN. We have not talked about risk. And risk has to enter into this picture when we talk about privatization. Certainly, I know that many young people invest and invest wisely, and indeed can be millionaires. But not all. And we absolutely must consider, just as you have indicated, that without Social Security, or some assurance of a minimum benefit, many in this country would be living in poverty.

Women, particularly, who have not been in the work force for many years, these are middle age and older women, will have a very difficult time making it. Because what investment money do they have now to make a fortune for the future? So risk is something that has to be addressed.

Chairman BUNNING. It would be addressed in any kind of program that we would bring forward.

Mr. Portman has another question. Go ahead.

Mr. PORTMAN. Thank you.

I want to start by just thanking the Chairman for doing this. Because these hearings have been extremely informative. I wish more Members were here, and I wish I could have gotten here earlier. This is what's going to be necessary if we're going to come up with a responsible policy in the end.

We've done seven of these, right? Seven hearings?

Chairman BUNNING. This is our seventh.

Mr. PORTMAN. This is just great. I was with a group this morning, and they said, why isn't Congress doing something about Social Security. And I said, I'm late for a hearing, actually, that's doing it. [Laughter.]

Mr. PORTMAN. Jim Bunning has been doing a hell of a lot, and people don't realize it. But this is all getting into the record, and this will all be available not just to us, but to the staff, who do all the work around here.

Just on this savings issue, it's very interesting to me. I think part of the answer to this conundrum we find ourselves in is to improve private savings, both through company offered plans and through IRAs and other private savings plans. My focus has been more in the simple plan, that approach.

I was very encouraged by what Mr. Salisbury just said. It runs counter to what I thought was true. Is our National savings rate, in the aggregate, going up or down at this point?

Mr. SALISBURY. The national savings rate in the aggregate had been going up for 3 years. It's down a little bit now, but I'd have to add a footnote on the problem of that savings rate, vis-a-vis pensions, for example. No unrealized capital gain that exists is treated as savings. So if we look at the equity markets today, many people have 401(k) plans, and there's trillions of dollars now in defined benefit pension plans.

And by our estimate right now, there's about $2.6 trillion that is unrealized capital gain. By the way the statisticians report the numbers, that does not exist. Yet to the individual who gets their 401(k) statement, and their statement says, you've been in the market, their Federal Employee Thrift Statement, you've been in that index fund, and you have twice as much money as you started with, they look at that and say, I've saved money.

The Commerce Department would look at you and say, there is no savings there, because they've not yet sold that account.

Mr. PORTMAN. Because of the possibility that it will go down, and the fact that some tax will be taken from that.

Mr. SALISBURY. Right.

Mr. PORTMAN. That's interesting. That seems to me to be a methodology problem you need to resolve.

But our savings rate is still relatively low, compared to the other industrialized countries.

Mr. SALISBURY. Absolutely.

Mr. PORTMAN. And we do have an overall focus on the——

Mr. SALISBURY. Should we be saving more? Absolutely.

Mr. PORTMAN [continuing]. The statistic that I've been repeating that I heard a couple of years ago that got me involved in this was that fewer than 20 percent, roughly 19 percent of small businesses now are offering any kind of pension plan at all. Small business is defined as companies with 25 or fewer employees.

That to me is totally unacceptable. And our responsibility I think as a Congress is to simply these darned pension plans so that they're less costly and less burdensome for people to put together.

What else would you recommend? Again, this is about Social Security and I know that's the core here. But what can we do as a Congress to get more people into private savings, short of what Mr. Keane is suggesting, which may be necessary, even with our existing system. What should we be doing?

Mr. SALISBURY. Congressman, with two things that the Congress has recently done, you're "moving on track." One was the creation of simple, which starts to get something down to a level where entities can begin to do it at very low administrative costs. That is crucial, and with very little paperwork.

The House of Representatives passed and sent to the Senate the Saver Act, which many of you were cosponsors on. That is the type of effort that if the Senate goes along with it and the President signs it, begins to take messages to the American people, it begins to get them moving.

And if one takes the third step of some of the proposals now before Congress, that would increasingly simplify. I'll use an IRA example. Instead of passing tax bills that create more types of IRAs with more complexity, with our recent survey people have even less understanding of, when they don't understand it, they don't use it, is instead say, let's have one IRA again, I don't care if the number is 500, 1,000, whatever, one simple thing that everybody can do without confusion.

I think the greatest thing Congress could do is try to remove all the confusion from this, so that something is available to individuals on a universal basis.

Mr. SEIDEL. I would also like to respond to that. I think one of the things that will help move along the solution processes is expanding the debate on addressing the concerns with Social Security. More of the forums, more of the townhall meetings, more of this type of thing.

Congressman Johnson asked a question earlier, what can we do to further educate the American people on some of the challenges that exist. If they know and they start to understand and clearly accept what those challenges are, I think we will see more people start to look out for themselves and save and do some of the things that they haven't been doing.

I will ask this of the Subcommittee, and I'm speaking from a nonprofit standpoint. That is that you could be helping this process a great deal by encouraging corporate America to sponsor some of these townhall meetings, to get involved in the financial end of

running them. It is very, for our organization, it has become quite costly.

We will continue to run the programs, it's just, we're a true not for profit, sometimes we take that too literally. Anyhow, that would be of help to us.

Thank you, sir.

Chairman BUNNING. Thank you. Often, it is impossible for this Subcommittee to cover every issue we are interested in during a hearing. Therefore, I may be submitting additional questions in writing for you to answer for the record.

I would like to thank each of your for your testimony today. I appreciate all the hard work you and your organizations are doing to engage and educate the public regarding this country's most important Social Security Program.

The Subcommittee stands adjourned.

[Whereupon, at 12:04 p.m., the hearing was adjourned, to reconvene at the call of the Chair.]

Statement of the American Association of Retired Persons

Study Background and Objectives

Since the Mid-1980's, AARP has commissioned a series of studies on attitude and values re Social Security, Medicare and Health Care.

Going well beyond AARP's public opinion tracking, these special studies focused on underlying attitudes and values.

The findings and insights reported on here are drawn from the 1995 and 1996 Tracking Research:

- Comparisons to 1985 measures as well.
- The goal of this analysis is to explore the question: How does the public view Social Security and Medicare for today and for tomorrow?
- The purpose of this research is not to test policy options; rather, it is an exploration of values and attitudes that will shape public reactions to policy options.

Study Method

Survey

- 2000 interviews
- 500 interviews in each of four age groups
  - ... 18-29 - Generation X
  - ... 30-49 - Baby Boomers
  - ... 50-64 - Mid-life Americans
  - ... 65+ - Seniors
- By telephone
- 30 minutes in length - 1985, 1995
  - ... Selected questions updated in 1996

Focus Groups

- A series of focus groups conducted in
  - ... Charlotte, North Carolina
  - ... Providence, Rhode Island
  - ... Phoenix, Arizona
  - ... Chicago, Illinois
  - ... Fort Lauderdale, Florida
  - ... Kansas City, Missouri
  - ... Seattle, Washington
- Between February and September 1995, January and June 1996
- Among
  - ... 21 - 29 year olds
  - ... 30 - 49 year olds
  - ... 50 - 64 year olds
  - ... 65 and older
- In median income range for region for each age group

DYG SCAN[sm]

- A social trend tracking program conducted by DYG since 1987

Overview

This in-depth tracking research and our current DYG social trends work suggest the following perspective on Social Security and Medicare for policy makers.

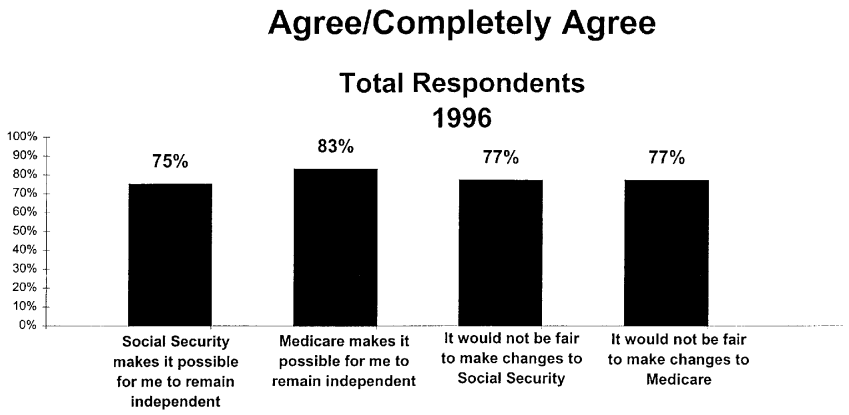
Overall, the public climate is clearly growing more complex and now requires a short term-long term framework and a recognition that, for the long term, values and attitudes may evolve very differently for Social Security and Medicare.

Considering the short term first:

- There is no doubt that the American public - old and young - strongly values Social Security and Medicare as twin pillars of financial security for today's older Americans.
  - ... There are no signs of support for pulling back on either program for today's beneficiaries and a clear expectation that the programs will not be weakened.
- Americans view Social Security and Medicare for today's older Americans as
  - ... Vital to their financial security and that of their families.
  - ... Essential to their good health and longevity.
  - ... Commitments that cannot be broken.

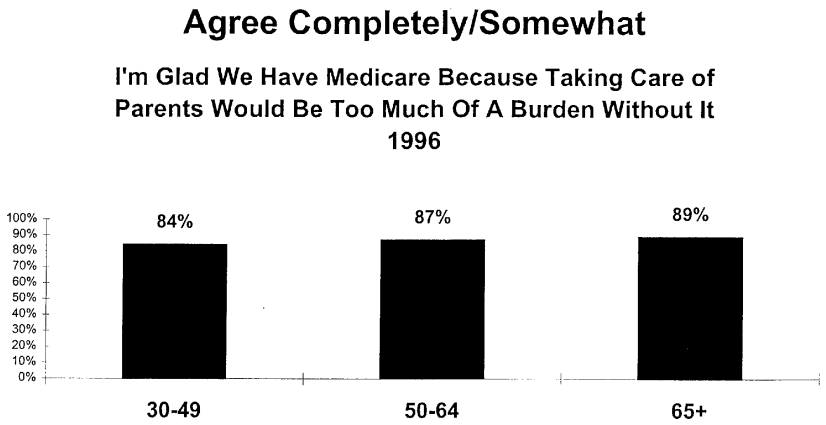
  And consideration of curtailment would be viewed as "unfair".
- Indeed, there is a sense that for today, Social Security and Medicare need strengthening and some "cleaning up" - especially fraud, waste and abuse in Medicare.
- The 1995-1996 "Medicare Debate" served to strengthen commitment to Medicare.
- Given this short term view, 1997 legislative activity re Medicare were clearly appropriate. .

CHART 1



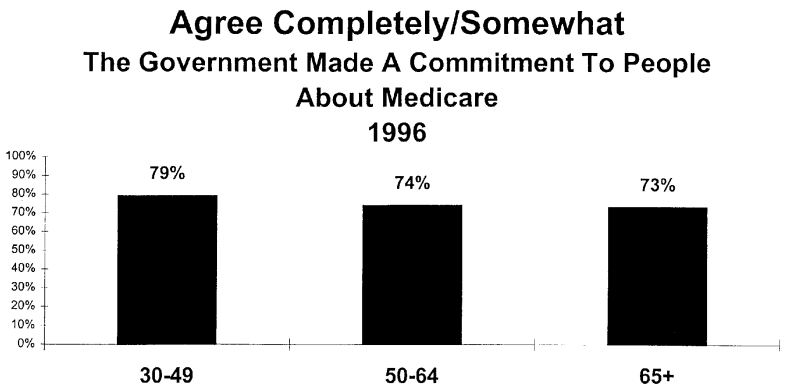
NOTE: Top two boxes on a 4 point agree/disagree scale.

CHART 2



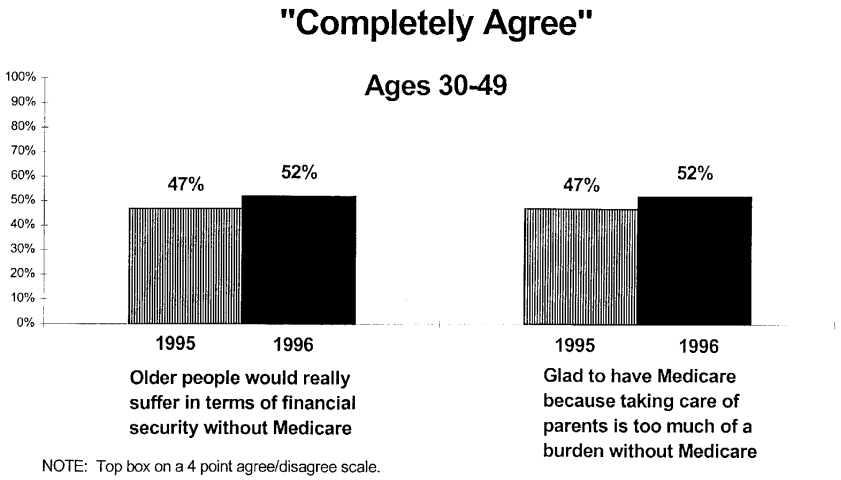
NOTE: Top two boxes on a 4 point agree/disagree scale.

CHART 3



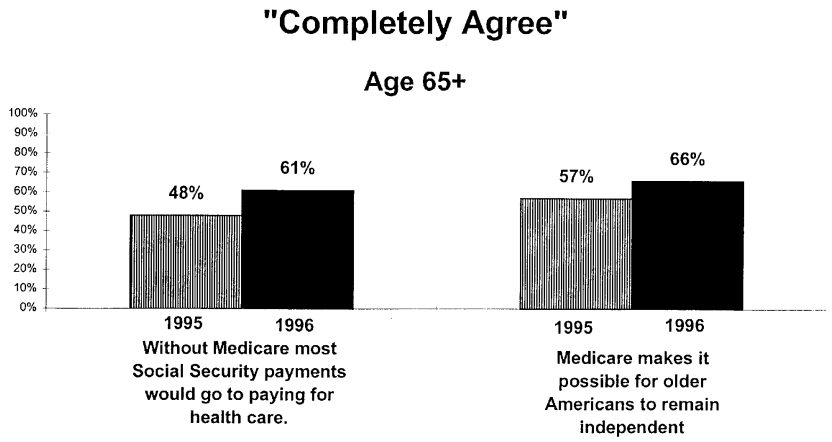
NOTE: Top two boxes on a 4 point agree/disagree scale.

CHART 4



NOTE: Top box on a 4 point agree/disagree scale.

CHART 5



NOTE: Top Box on a 4 point agree/disagree scale.

Attitudes Regarding Medicare

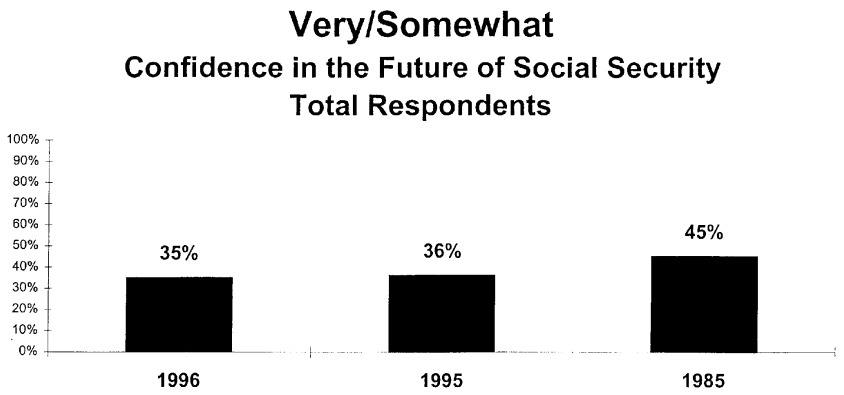
	Total		18 to 29		30 to 49		50 to 64		65 +	
	1996	1995	1996	1995	1996	1995	1996	1995	1996	1995
	%	%	%	%	%	%	%	%	%	%
Agree Completely/ Somewhat										
Medicare funds would be sufficient if fraud, waste and abuse were eliminated.	87	87	85	88	88	88	88	89	89	84

Turning to the long term:

- There is strong evidence that the country is getting ready to reevaluate the roles of Social Security and Medicare for the next generation - the Baby Boomers.
  - ... In a sense, the mid-1990's are like the mid-1930's with an open public policy question about how to best provide financial support to aging Americans in the 21st century.
- It is important to recognize that
  - ... The focus of the question for the long term is not on how to adapt, fix or alter the government programs called Social Security and Medicare.
  - ... Rather, the open question is a broader one about retirement
    - What will it be?
    - How will financial security, including health security, be achieved?
    - Where will Social Security and Medicare fit in, if at all?

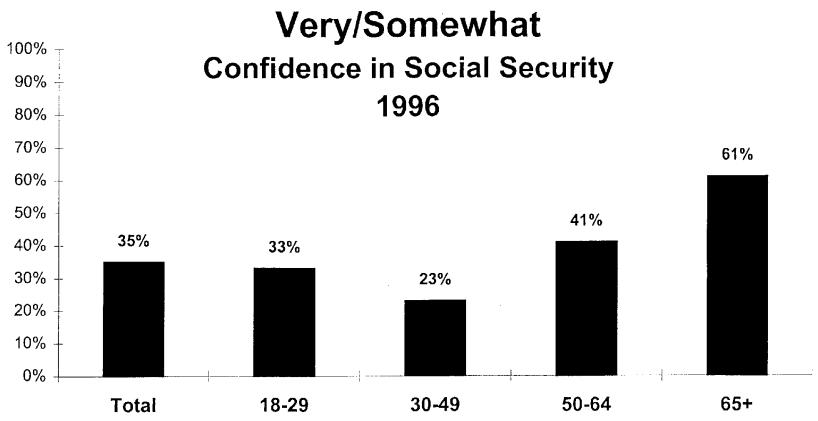
- It appears that as Americans work through the new questions about retirement, they will rely on differing attitude sets with regard to Social Security and Medicare, e.g.
  - ... At least at this point, there is the view that income funding might be better achieved (at least for some) through individual initiative while no viable private alternative to a government financed approach to health care is seen.
- It also appears that the public will bring the following factors to the rethinking process.
  - ... Lack of confidence in Social Security's future financial viability and the belief that even today its support is inadequate.
  - ... A self-reliance thrust - the belief "I can do better on my own"; currently this is fueled by a very "hot" Wall Street, but the vagaries of the stock and bond markets will apply.
  - ... An underlying risk averseness that demands a "security blanket" even as we embrace self-reliance.
  - ... Issues of fairness, equity and commitment in re-evaluating the role of government in the future funding of retirement.

CHART 6



NOTE: Top two boxes on a 4 point very/somewhat scale.

CHART 7



NOTE: Top two boxes on a 4 point confident/not-confident scale.

CHART 8

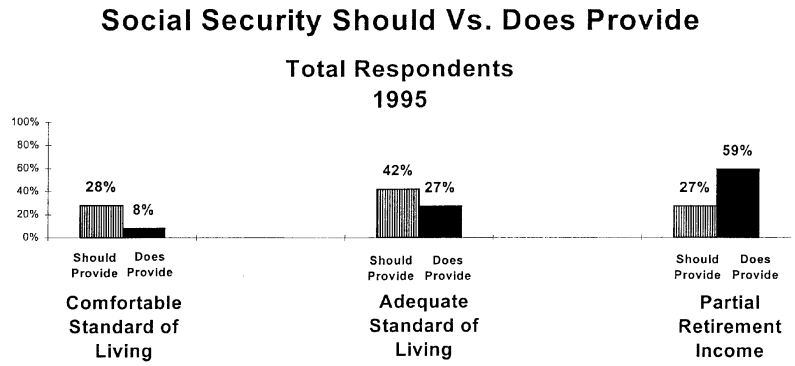


CHART 9

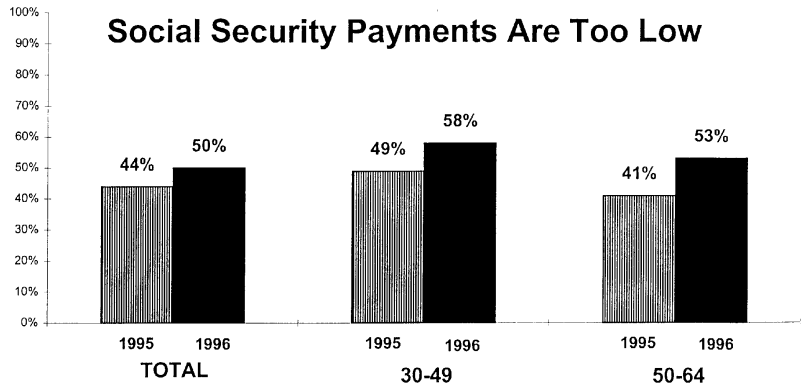


CHART 10

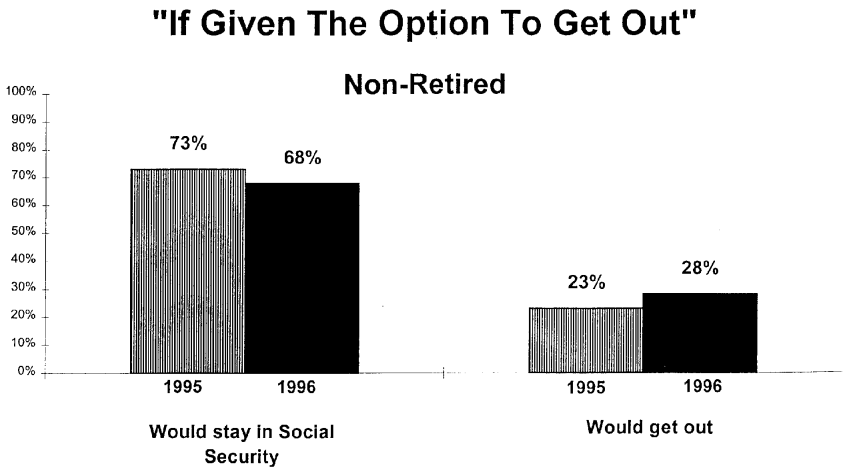
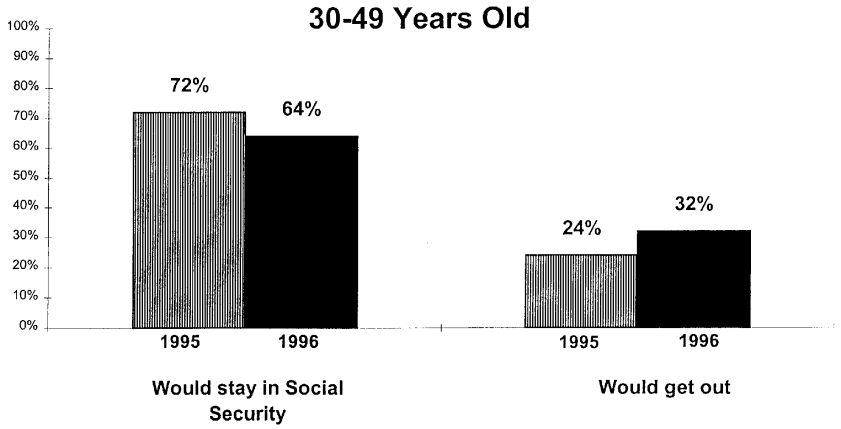


CHART 11

"If Given The Option To Get Out"

30-49 Years Old



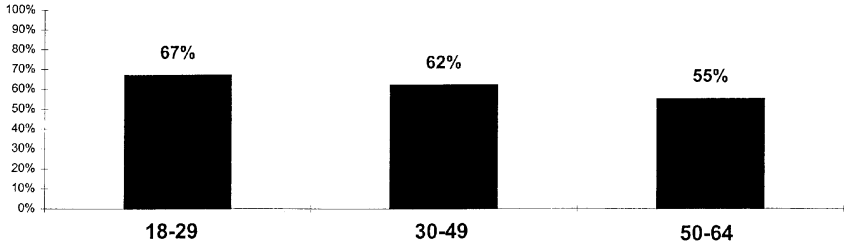
Attitudes Toward Social Security - Non Retired

Agree Completely/Somewhat	1996 %	1995 %
I am very confident that I could do better on my own investing the money I pay into Social Security.	↑63	59

CHART 12

"Agree Completely/Somewhat"

Confident Could Do Better On Own Investing Money I Pay Into Social Security 1996



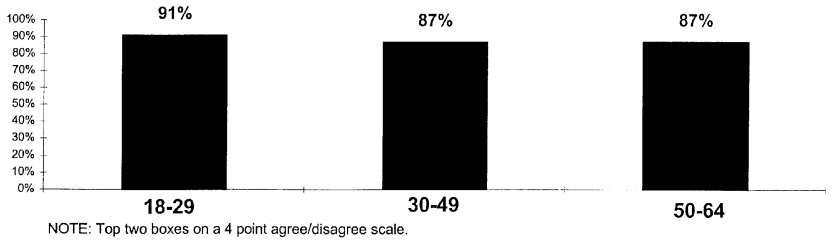
NOTE: Top two boxes on a 4 point agree/disagree scale.

CHART 13

Agree Completely/Somewhat

May Not Need Social Security When I Retire, But Want To Know It Is There In Case I Do

1996



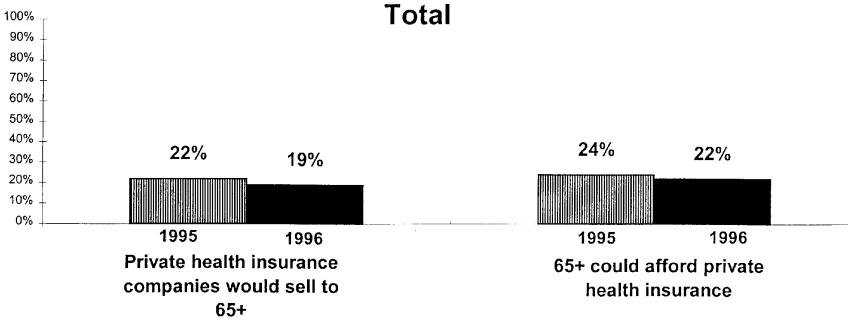
NOTE: Top two boxes on a 4 point agree/disagree scale.

	Total %	Retired %	Non retired %
Agree Completely/Somewhat			
The government made a commitment a long time ago that can't be broken			
Social Security	80	81	80
Medicare	77	76	77

CHART 14

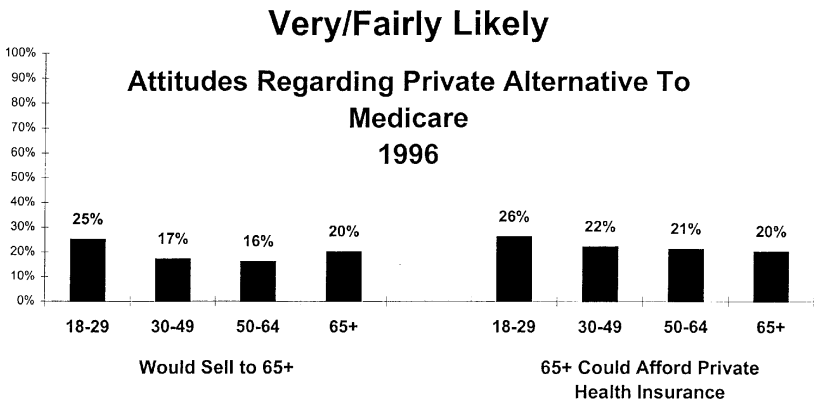
"Very/Fairly Likely"

Total



NOTE: Top two boxes on a 4 point likely/unlikely scale.

CHART 15



NOTE: Top two boxes on a 4 point agree/disagree scale.

Social Security Gender Gap

	1996	
	Women	Men
Agree Completely/ Somewhat	%	%
One of the very most important government programs.	59	46
Even though might do better on own, important to contribute for common good.*	88	76
Believe we should continue Social Security.*	91	76
Agree		
Confident could do better on my own.*	53	72

*Non retired respondents only.

Social Values Context

- Adaptation to a more limited economic outlook, greater confidence, optimism, "I can handle it", especially among Baby Boomers.
- More focus on the future.
  ... Especially Baby Boomers.
- Less confidence in institutions.
  ... Especially government.
- Toward self reliance.
- At the same time, risk averseness.
- Social values trends currently reveal Baby Boomers to be uniquely "high" on own survival skills, ability to deal with the future. Reinforced by Baby Boomers on-going traits of:
  ... Higher expectations.
  ... Higher comfort requirements.
  ... Penchant for "reinvention".

In conclusion:

The public discussion is just beginning and has a long process to work through, a series of stages to travel through.

... Using Daniel Yankelovich's model for public opinion development, the new "issue" of funding retirement for the Baby Boom is in stage #1 - consciousness raising - and must work through information gathering and trade-off evaluation before coming to public judgment about what the best course will be.

The implications for the public policy arena appear to be:

- The need for a debate about retirement in the future and how it will be funded.
  - ... Not about Social Security and Medicare, per se; but about the larger questions and then where Social Security and Medicare fit in.
  - ... To include the Baby Boom.
- The need to include in the debate and discussion:
  - ... The role of Wall Street.
  - ... The need for a "security blanket".
  - ... Fairness and commitment.
- Most important, the need to recognize that this is only the opening of the debate.
  - ... It is not a mandate for privatization or any action now.
  - ... Time must be allowed for public "working through."

Statement of Kevin Kearns, President, Council for Government Reform

Mr. Chairman, I'd like to join this important debate about the future of Social Security by giving you the results of our nationwide surveys of seniors on Social Security issues.

The Council is constantly engaged in surveying the views of our 350,000 members and we also conduct many informational mailings to other interested seniors to gauge their opinions on Social Security.

I'd like to report that seniors have great confidence in the current system but that is not the case.

With over 225,000 responses, our regular yearly survey shows that 83% of respondents said that they were "Very Concerned" about the safety of the Social Security Trust Fund. They are aware of the practice by Congress of borrowing the Social Security surplus and using it to mask the true size of the deficit.

In fact, 78% of these respondents said that they "Agreed" that monies paid into the S.S. Trust Fund are for payment of future S.S. checks and NOT to fund current federal spending.

These seniors also believe that Congress should be prohibited by law from using Social Security monies in this way. In a separate survey of nearly 300,000 seniors, over 96% agreed that Congress should enact a law to prevent Congress from borrowing the Social Security Trust Fund surplus.

We have also found that seniors believe that significant waste and mismanagement at the Social Security Administration contribute to the woeful shape of the Trust Fund. After your Committee's hearings about union abuses at the Social Security Administration, we began polling citizens about their views on this practice.

Not surprisingly, of the 20,000 citizens we polled, over 88% said that union officials should not be paid from the Social Security Trust Fund. And 96% of these respondents said they were "Very Concerned" about the growing debt in the Trust Fund.

The pattern is clear, Mr. Chairman. Seniors are very worried about the future of the Social Security system and deeply distrustful of another political solution.

We are all aware of the looming demographic crisis that confronts the Social Security system. So far, Congress has chosen to approach this crisis like an ostrich—with its collective head buried in the sand. The general (but unstated) consensus around Washington is that anyone who mentions Social Security reform will be electorally roasted.

However, we are reaching a point where inaction is more damaging to today's seniors than action. The longer we postpone a solution to this crisis, the more painful that solution will be to both current workers and retirees. I'm here to report that this message is being understood by those so-called "greedy geezers," who in fact are willing to sacrifice if that sacrifice is shared.

Finally, in our most recent survey of over 50,000 seniors, "Based on what you know, do you approve or disapprove of placing part of the Social Security Trust Fund reserves in conservative investments such as blue chip stocks or long term bonds? According to the "experts," the answer to this question should be a responding "NO." However, 46% of our respondents approved of such a plan. Only 15% disapproved and 39% either had no answer or weren't sure.

Clearly, the tide is turning in public opinion of Social Security reform. I urge the Committee to do all it can to bring this critical item to the top of the national agenda and move this important national debate forward. Whatever the solution, its imperative for the protection of today's seniors and tomorrow's to get Social Security back on its feet. Thank you.

Statement of Wilfred Plomis, Wilmington, DE

We hold these truths to be self evident, that all men are created equal. With this provision in the Declaration of Independence we must address the dilemma of Social Security, preserving it for the seniors while being certain it's available for those still to come aboard. It's one of the Solomonized problems complicated by politics. But being a senior who recognizes a need for solution, I would like to offer some suggestions that would be fair to everyone concerned. Social Security should entail a two prong objective—provide for seniors in need and incentives to those who work up to 65 and beyond. Provisions are as follows:

- No change for current recipients.
- Each provided a $4,000 life insurance policy using present excess funds and private carriers.
- Half to two-thirds of present excess should be invested in private mutual funds invested only in large blue chip companies with the rest invested as before.
- About 10–20 large mutual funds with blue chip companies should be established for investment as heretofore mentioned to prevent loss by investors in individual companies.
- Part of privateer's monies should be used to purchase a $4,000 life insurance policy along with a companion disability policy, both with a private carrier.
- Penalize early recipients 20% and 10% at ages 63 and 64 respectfully.
- All members should be reviewed for eligibility.
- Provide for those under 65 as follows:

—Employee contribute, along with employer 7½% (Total 15%).

—Of this 7% should provide for existing recipients, 5–6% invested and 2–3% used for aforesaid $4,000 life insurance policy and disability benefits (not to exceed $12,000 annually.)

—Those 45 and older would be provided an option—45–55 stay under the present system or privatize as shown above, locking in at 25% of benefits or $300.p/month at age 65, 55–60 privatize and lock in at 50% of benefits or $600.p/month at age 65.

—Privatize all those under 45.

• Reward, not punish those who collect while working. Starting at age 63 allow recipient to begin collecting 10% of benefits monthly, irrespective of income, increasing 2½% annually until retirement. This partial payment plus tax advantages and other incentives should forestall early collection, taking pressure off the fund and preclude anticipated shortfall. This would increase tax revenue, be more helpful, increase money in the marketplace, save administrative cost maintaining work penalties and give recipients more pride in themselves.

The purpose of said Social Security is to provide for seniors, as now, but not penalize those wanting and able to continue working. With modern medicine, age is becoming somewhat irrelevent. Being 65 is a lot less old now than in the past. Hence providing the system with incentives to work beyond 65 has become attractive. As said changes suggested provide many benefits to the system, America and the seniors along with keeping pressure off Social Security by early retirement, that is now encouraged at age 62. With the changes provided here and rates comingled (with youths and seniors for life insurance), I feel the system will beome more solvent and available to the future leaving a viable system for those coming aboard.

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