FIRST IN A SERIES OF SUBCOMMITTEE HEARINGS ON PROTECTING AND STRENGTHENING SOCIAL SECURITY

HEARING

BEFORE THE

SUBCOMMITTEE ON SOCIAL SECURITY

OF THE

COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

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FIRST IN A SERIES OF SUBCOMMITTEE HEARINGS ON PROTECTING AND STRENGTHENING SOCIAL SECURITY

TUESDAY, MAY 17, 2005

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

The Subcommittee met, pursuant to notice, at 2:57 p.m., in room B–318, Rayburn House Office Building, Hon. Jim McCrery (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
May 17, 2005
No. SS–1

CONTACT: (202) 225–9263

McCrery Announces First in a Series of Subcommittee Hearings on Protecting and Strengthening Social Security

Congressman Jim McCrery (R–LA), Chairman, Subcommittee on Social Security of the Committee on Ways and Means, today announced that the Subcommittee will hold the first in a series of hearings on protecting and strengthening Social Security. This hearing will examine the evolution of the Social Security safety net and its importance to vulnerable populations. **The hearing will take place on Tuesday, May 17, 2005, in room B–318 Rayburn House Office Building, beginning at 2:00 p.m.**

In view of the limited time available to hear witnesses, oral testimony at this hearing will be from invited witnesses only. However, any individual or organization not scheduled for an oral appearance may submit a written statement for consideration by the Committee and for inclusion in the printed record of the hearing.

BACKGROUND:

The Social Security Act (P.L. 74–271) was signed into law by President Franklin D. Roosevelt on August 14, 1935. Initially, Social Security was focused on the income needs of retired workers age 65 and older. Soon thereafter, protections for other vulnerable populations were added. The Social Security Act Amendments of 1939 (P.L. 76–379) expanded the scope of Social Security beyond protection of the individual worker to protection of the family by authorizing payments to the spouse and minor children of a retired worker or the survivor of the deceased worker. The Social Security Act Amendments of 1956 (P.L. 84–880) created the Social Security Disability Insurance program to provide protection against financial insecurity resulting from a disabled worker's loss of earnings.

Social Security continues to play a key role in preserving the economic security of Americans. About one-in-six Americans receives a Social Security benefit. For one-third of the elderly, Social Security is virtually their only source of income. Poverty rates among the elderly fell from 35.2 percent in 1959, to only 10.2 percent in 2003—a reduction of more than two-thirds during the last 44 years. Younger workers and their families receive valuable disability and survivors' insurance protection. In fact, about one-in-three Social Security beneficiaries is not a retired worker.

Although Social Security provides an essential safety net for workers and their families, roughly 2 million retirees who paid into Social Security throughout their working lives are collecting benefits that leave them below the poverty line. Moreover, the basic program was designed with circa World War II families in mind—in which the family breadwinner was usually the husband, the wife worked in the home, and marriages were less likely to end in divorce. However, women's workforce participation has more than doubled since the program's inception, and there are more two-earner and single-parent households. Social Security needs to evolve to meet the needs of our ever-changing society.

In announcing the hearing, Chairman McCrery stated: "Over the decades, Social Security has provided a vital income safety net for women, children, individuals with disabilities, and those with low earnings. As the Subcommittee begins its ex-

amination of ways to protect and strengthen Social Security, I am pleased to focus first on the history of Social Security's essential safety net, and its importance to those who are most vulnerable."

FOCUS OF THE HEARING:

The Subcommittee will examine the evolution of Social Security and its importance and effectiveness in meeting the needs of vulnerable populations.

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Please Note: Any person(s) and/or organization(s) wishing to submit for the hearing record must follow the appropriate link on the hearing page of the Committee website and complete the informational forms. From the Committee homepage, *http://waysandmeans.house.gov*, select "*109th Congress*" from the menu entitled, "*Hearing Archives*" (*http://waysandmeans.house.gov/Hearings.asp?congress=17*). Select the hearing for which you would like to submit, and click on the link entitled, "*Click here to provide a submission for the record*." Once you have followed the online instructions, completing all informational forms and clicking "submit" on the final page, an email will be sent to the address which you supply confirming your interest in providing a submission for the record. You ***MUST REPLY*** to the email and ***ATTACH*** your submission as a Word or WordPerfect document, in compliance with the formatting requirements listed below, by close of business Tuesday, May 31, 2005. **Finally**, please note that due to the change in House mail policy, the U.S. Capitol Police will refuse sealed-package deliveries to all House Office Buildings. For questions, or if you encounter technical problems, please call (202) 225–1721.

FORMATTING REQUIREMENTS:

The Committee relies on electronic submissions for printing the official hearing record. As always, submissions will be included in the record according to the discretion of the Committee. The Committee will not alter the content of your submission, but we reserve the right to format it according to our guidelines. Any submission provided to the Committee by a witness, any supplementary materials submitted for the printed record, and any written comments in response to a request for written comments must conform to the guidelines listed below. Any submission or supplementary item 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 submissions and supplementary materials must be provided in Word or WordPerfect format and MUST NOT exceed a total of 10 pages, including attachments. Witnesses and submitters are advised that the Committee relies 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. All submissions must include a list of all clients, persons, and/or organizations on whose behalf the witness appears. A supplemental sheet must accompany each submission listing the name, company, address, telephone and fax numbers of each witness.

Note: All Committee advisories and news releases are available on the World Wide Web at *http://waysandmeans.house.gov*.

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 MCCRERY. The meeting will come to order. Good afternoon everyone. I am pleased to chair this first in a series of Subcommittee hearings on protecting and strengthening Social Se-

curity. The goal of the hearings is to examine ways to protect Social Security to ensure seniors and near seniors will receive exactly what they have been promised, while strengthening Social Security for younger workers. Thanks to the leadership of President Bush and President Clinton before him, Americans understand Social Security faces financial challenges that must be addressed. The question before this Subcommittee is, of course, how do we address those challenges?

Social Security has a long history of providing benefits for families in distress. Only 4 years after Social Security retirement benefits were enacted in 1935, the Congress passed amendments extending benefits to surviving widows and children. In the decades since then, Congress further expanded Social Security's coverage for at-risk Americans, establishing benefits for divorced spouses, adopted children, and those with disabilities.

Turning to our topic for today's hearing, how Social Security has evolved over the decades and its importance for the most vulnerable in our society, it is most appropriate that we have Jo Anne Barnhart, the Commissioner of Social Security, as our first witness. The Commissioner has been working on issues involving women, children, and the elderly, not only at the Social Security Administration (SSA), but throughout her career in public service.

We also will hear from the U.S. Government Accountability Office (GAO) and other expert witnesses about how Social Security is especially important to low-wage earners, women, and those with disabilities, and how Social Security has not kept up with changes in society and in the American family. Social Security affects the lives of nearly every American, and the deliberation regarding its future is far too important for partisan politics. I will look forward to working with all my Subcommittee colleagues on this historic opportunity to thoughtfully and carefully consider all options to strengthen and update this essential program. I would ask the Ranking Member, Mr. Levin, if he has any opening remarks?

Mr. LEVIN. I do, and thank you, Mr. Chairman. We are pleased that we are having this hearing, and your approach to witnesses means that we should be able to have a meaningful range of views on these issues. As you said, a major focus of the hearing is going to be the impact of Social Security on some of our most vulnerable populations, elderly, widows, children, disabled workers, and the poor. Let me make three points on these matters.

First, Social Security has been a major resource for millions to move out of poverty and for millions of others to keep their earlier middle class standard of living, to maintain the independence, to keep living their lives as they had done in earlier years. I assume we are going to hear this from our distinguished Commissioner and others. The facts briefly, 4 in 10 elderly widows rely on Social Security for 90 percent of their income or more; 12 million seniors would fall into poverty without Social Security; 6.4 million children live in households with Social Security income, and over a third of them would be poor without Social Security; and nearly 7 million disabled workers and their families receive Social Security benefits, and more than half would fall into poverty without them.

Those groups depend on Social Security's guaranteed benefits. They know they can't outlive it. They know it will keep up with in-

flation and allow them to maintain their standard of living. It will be there even if they retire or become disabled at a time when the stock market is down. It will protect their families too, even if they haven't had time to accumulate enough funds in an account to cover multiple people over a long period of time. So, Social Security provides dignity as well as income. In all cases the benefits being provided to vulnerable populations were earned, earned by the worker herself or by a spouse or parent.

Second, because both the dignity and the independence are so important for vulnerable populations, we have been very concerned about what would be the impact of the President's privatization proposals on these populations. The dangers are clear, even though the Administration has attempted to minimize them with varying statements. Last week, for example, Allan Hubbard, one of the President's top advisers on Social Security, confirmed what we had intuited, the President's plan would apply the middle class benefit cut, which would cut benefits up to 40 percent for future middle class workers, to widows and children too. Also, survivors would be subject to the benefit cut if the wage earner had earned more than $20,000 while working, even if the family was quite poor after his or her passing. Shortly after that, a White House spokesperson cast a long shadow on earlier statements by the President that disabled workers would not face benefit cuts, saying the details would need to be, and I quote, "worked out through the legislative process," end of quote, and refusing to say benefits would not be cut. It is not surprising that the White House plans to cut benefits for everyone, not just retirees, since without these benefit cuts they can't offset the new shortfall created by their private accounts. Both the proposal that the President initially called, in quotes, "a good blueprint," and the sliding scale benefit cuts he endorsed a few weeks ago, propose to cut disability and survivor benefits.

The President's privatization proposals to date would dramatically reduce the guaranteed Social Security benefit for over 70 percent of all future beneficiaries, and would increase it little if any for those not being cut. If individuals opted for private accounts, they would be subject to a second cut in their guaranteed benefit, even if those accounts did poorly. When these two benefit cuts are combined, most people would be left with only a tiny fraction of their currently scheduled guaranteed Social Security benefit, and no guarantee that their account will beat the odds and do well. The change would negatively impact all Americans, but reducing guaranteed benefits would be particularly harmful to women, disabled workers, children, and those with modest earnings.

Third and last, some will argue that Social Security does not always strike a perfect balance between protecting the vulnerable and paying people benefits based on their contributions. We will hear about some of these issues today, and we should. It would be contradictory to use the Social Security's failure to be perfect in every part of its design as an excuse to replace it with a system that would undermine or destroy its numerous basic strengths, and replace it with many provisions that could create far greater problems of equity and adequacy.

It has not been an easy struggle to bring about the improvements already in place in Social Security. For example, when the

creation of the Disability Insurance Program was first proposed, all 10 Ways and Means Republicans opposed its creation. Democrats look forward to working on a bipartisan basis to continue perfecting Social Security. We stand firmly that no set of benefit changes to Social Security's guaranteed benefits, however worthy, could offset the harm of beginning to phase out that guaranteed benefit, and replacing a guaranteed benefit with private accounts. Thank you, Mr. Chairman.

Chairman MCCRERY. Thank you, Mr. Levin. Indeed, this is the legislative process that we are engaged in now and I hope that we will listen to the witnesses today and get the facts, and then discuss those facts on both sides of the aisle and try to improve the Social Security program together.

Mr. LEVIN. All for it.

Chairman MCCRERY. Thank you for your comments. Our first witness today is the Commissioner of the SSA, the Honorable Jo Anne Barnhart. Commissioner Barnhart?

STATEMENT OF THE HONORABLE JO ANNE B. BARNHART, COMMISSIONER, SOCIAL SECURITY ADMINISTRATION

Commissioner BARNHART. Thank you, Mr. Chairman. Mr. Chairman and Members of the Subcommittee, I am very happy to be here today to testify about how Social Security has evolved since its inception in 1935. Today, Social Security pays over $493 billion in monthly cash benefits to over 47 million workers and their families to replace, in part, the loss of income due to retirement, disability, or death. By providing these benefits, Social Security helps ensure economic security for millions of Americans. Social Security is the major source of income for most of the elderly population. In fact, over 90 percent of individuals age 65 and over receive Social Security benefits. About two-thirds of these beneficiaries receive most of their income from Social Security, and for over one-fifth of them, Social Security is their only source of income.

Throughout its 70-year history, Social Security has undergone numerous changes. Having begun as a retirement program for a limited segment of the working population, today it affords economic protection to the entire family, and at all stages in life. Social Security plays a key role keeping millions of our most vulnerable citizens, the elderly, the disabled and children out of poverty. My written testimony includes an extensive discussion of the changes that have occurred since Social Security began. These changes show that the history of the Social Security program is one of change, but in the interest of time this afternoon I am only going to make a few general observations.

From adding family protections, to expanding the program and addressing financial issues, Congress over the years has taken action to strengthen and to preserve Social Security. Today the program is facing new challenges, challenges that are driven by demographics. Baby Boomers are rapidly approaching retirement, families are having fewer children, and people are living longer. As a result, it will not be possible to pay scheduled benefits without making additional changes to our current pay-as-you-go Social Security program.

While we are in sound fiscal health in the near term, I believe, as do my fellow trustees, that the future projected shortfalls should be addressed in a timely manner to allow for a gradual phasing in for the necessary changes. The sooner adjustments are made, the less abrupt they will have to be to achieve sustainable solvency. As you know, a sustainable reform of the system requires actuarial balance over the 75-year projection period and stable or rising trust funds at the end of that 75-year period.

I again want to thank the Chairman for holding today's hearing. As President Bush said, "This country has many challenges. We will not deny, we will not ignore, we will not pass along our problems to other Congresses, to other Presidents and other generations. We will confront them with focus and clarity and courage." With the President's leadership and that of this Committee, I am certain that we will be able to address the needs of our changing society and provide for a Social Security program that our citizens can count on. I would like to take this opportunity to make clear that current and near retirees can be assured that their scheduled benefits are secure and will be paid.

As we look to the future, our actions must signal to younger generations of Americans that we are committed to strengthening the program that protected our parents, our grandparents, and our great grandparents. By doing so, we restore their faith and confidence in the most successful domestic program in our Nation's history. As a nation, we have a proud history of grappling with difficult issues, and we have done this best when we worked together. As the discussions on strengthening the program continue, the SSA will be available to provide assistance to Congress and the analysis of any proposed changes, and of course, we will continue to faithfully serve the American people to the best of our ability. At this time I would like to thank you again for inviting me to testify, and I would be happy to try to answer any questions that any of you may have.

[The prepared statement of Commissioner Barnhart follows:]

Statement of The Honorable Jo Anne B. Barnhart, Commissioner, Social Security Administration

Thank you, Mr. Chairman and Members of the Subcommittee.

It gives me great pleasure to be invited here today to testify about how Social Security has developed and evolved over time. Since its inception in 1935, Social Security has developed into one of the most successful domestic program in our Nation's history.

Let me begin by telling you about what we do and how we do it. Last year, Social Security paid over $493 billion in monthly cash benefits to over 47 million workers and their families to replace, in part, the loss of income due to retirement, disability, or death. By providing these benefits, Social Security helps ensure economic security for millions of Americans. Social Security is the major source of income for most of the elderly population. In fact, over 90 percent of individuals age 65 and over receive Social Security benefits. About two—thirds of these beneficiaries receive most of their income from Social Security. For over one-fifth of them, Social Security is their only source of income.

As you know, Social Security involves more than paying cash benefits. In this fiscal year, SSA will:

- Process almost 6 million claims for benefits;
- Take applications, secure and evaluate evidence for, and issue 18 million new and replacement Social Security number (SSN) cards;
- Process 267 million earnings items to maintain workers' lifelong earnings records;

- Handle approximately 52 million phone calls to our 800-number; and
- Issue 136 million Social Security Statements.

SSA does all this while keeping administrative expenses under 2 percent of total outlays of Social Security and SSI benefits.

You can see that Social Security plays a key role keeping millions of our most vulnerable citizens, the elderly and children, out of poverty. We take very seriously our commitment to giving the American people the service they deserve; improving program integrity through sound financial stewardship, ensuring the program's solvency for future generations, and maintaining the quality of staff the Agency needs to provide a high level of service and stewardship. Now I would like to provide some background as to how Social Security began and how it has continued to develop and evolve over time.

The Creation of Social Security

The Social Security Act 1935 was a response to the economic crisis resulting from the Great Depression. At the height of the Great Depression, many older Americans were living in poverty. The Committee on Economic Security was appointed by President Franklin Roosevelt to confront the crisis. The Committee recommended that the federal government create a national system of unemployment and old-age benefits. Acting on those recommendations, and behind the driving force of President Roosevelt, Congress enacted the Social Security Act, which was signed into law on August 14, 1935.

The Act established a federal social insurance program for the aged financed through payroll taxes paid by employees and their employers (2 percent on the first $3,000 in earnings divided equally between employee and employer). The financing was based on the concept of "pay-as-you-go" or PAYGO. Under the PAYGO system, Social Security contributions of current workers fund the Social Security benefits of current beneficiaries. Congress selected this method of financing because of the great number of older Americans who were living in poverty at the time of the Great Depression. With the severity of the economic situation at the time, and because most of them would not have been able to find employment and then contribute to the system long enough to be eligible for benefits, Congress decided that this generation of older persons should receive Social Security benefits, despite not having contributed to the system. Thus, most of the first generation of Social Security recipients contributed either very little or not at all to Social Security.

The original old-age insurance system created by Title II of the Act provided retirement benefits to insured worker at age 65. The benefit was based on total wages, but a weighted formula was used to provide a greater return on payroll taxes paid in to low-wage earners. At that time, no benefits were provided for spouses and children. If a worker attained age 65 but was ineligible for benefits or died before reaching the age of 65, Social Security provided a lump sum payment to the worker or his/her estate. Collection of payroll taxes began in 1937 and benefit payments were scheduled to commence in 1942. This provided time to buildup the Social Security Trust Fund. Any surplus funds collected were to be invested in U.S. government securities.

The Amendments

1930s/1940s: Family Protections Added

In 1939, Congress amended the Social Security program to shift its focus from protection of the individual worker to protection of the family. The new legislation provided benefits to aged wives/widows, young children of a retired or deceased worker, young widows caring for a child, and dependent parents of a retired or deceased worker.

In addition, in response to public pressure, the amendments allowed initial benefits to be paid beginning in 1940 instead 1942, as originally scheduled.

Following the implementation of the 1939 amendments, the system remained essentially unchanged throughout the 1940s.

1950s: Expansion of the Program

The 1950 amendments made substantial changes to the scope of the program. This legislation broadened the program to cover many jobs that previously had been excluded, such as farm and domestic workers and, on a voluntary basis, State and local government employees not under a pension plan. This legislation also greatly increased benefit levels. Wage credits were also provided to those in military service. To finance these improvements, the amendments created a revised schedule for gradually increasing tax rates for employers, employees and the self-employed and increased the contribution and benefit base (the maximum amount of earnings subject to payroll tax and used in benefit computations).

Four years later, in 1954, another expansion in worker coverage took place. Social Security coverage was extended to farm self-employed workers and to professional self-employed workers (except lawyers, doctors, dentists and other medical groups). In addition, coverage was extended to State and local government employees covered under a pension plan (except firemen and policemen), on a voluntary basis.

By the mid-1950s, 20 years after the enactment of Social Security, almost 90 percent of workers were given protection under the program. In addition to this expansion, the 1954 amendments increased benefit levels and raised the contribution and benefit base.

In the early 1950s there was a growing recognition that the dangers of economic insecurity due to disability needed to be addressed. As a result, the 1954 amendments began the process of protecting workers from income loss due to disability. Congress enacted a disability "freeze" provision on a disabled worker's earnings record. While no cash benefits were payable under the provision, workers who were permanently disabled and met the insured status test at the time they became disabled could have their Social Security eligibility preserved by excluding periods of disability when computing subsequent retirement or survivors' benefits. This provision prevented loss of retirement and survivors' benefits due to disability.

Social Security disability cash benefits were authorized under the amendments 1956. The program established a cash program beginning in 1957 for totally disabled workers between the ages of 50–65. The program established the Disability Insurance (DI) trust fund and was financed by an increase in the employee/employer payroll tax.

The amendments also provided benefits to a dependent child, over the age of 18, of a retired or deceased worker if the child became disabled before the age of 18. In addition, benefits to female workers and wives were made available at age 62 instead of age 65, but at a reduced level to take into account the longer collection period. At age 62, widows and dependent parents could receive benefits at an unreduced rate. In 1958, the program extended benefits to spouses and children of disabled workers.

1960s: Disability Program Expanded & Medicare Began

By the mid-1960s, the OASDI program was essentially the program that exists today. Coverage was nearly universal so that almost all individuals retiring in the years following would be eligible for benefits. Two amendments were passed in the early 1960s. In 1960, the age requirement for disability, which was originally limited to those who were at least 50, was abandoned. In 1961, all retirees were now allowed to collect reduced benefits at age 62 instead of 65.

Concerned over the cost of health care for the elderly population, Congress passed "Medicare" legislation in 1965. The legislation consisted of two major components. part A was hospital insurance that provided basic protection against hospital costs and other related care. This portion would be financed by an additional payroll tax on employers, employees and the self-employed. part B was supplementary medical insurance that provided coverage for physicians' services and other health care. Enrollment in part B was voluntary and was funded through general revenues and premiums paid by enrollees. Separate trust funds were created for each part of the program. In addition to the Medicare Program, the amendments included an increase in benefits and as well as an increase in the earnings base.

Throughout the remainder of the decade, benefit levels continued to increase, as did the earnings base. In addition, in 1967, Social Security began providing monthly cash benefits for disabled widows and disabled dependent widowers; these benefits were available as early as age 50.

1970s/1980s: COLAs Introduced & Long-Term Financing Addressed

Throughout the program's history, Congress has maintained the value of Social Security benefits by periodically enacting across-the-board increases in benefits. However, in 1972, Congress decided to link benefits directly to changes in the Consumer price Index (CPI). The first automatic COLA adjustment took effect in June 1975. Prior to this time, Congress voted for increases in benefits directly. In addition, the legislation increased the contribution and benefit base and provided for automatic adjustments in this ceiling.

Based on economic projections in the mid-1970's, it was then estimated that initial benefits as a percent of pre-retirement earnings (replacement rates) would increase significantly for future retirees. Initial benefits were rising faster than either wages or prices. In 1977, Congress raised the payroll tax rates and increased the contribution and benefit base. Congress also corrected the most serious flaw in the method for computing the initial benefit level. Congress modified the benefit formula in order to provide that, from generation to generation, comparable workers

would receive comparable replacement rates. Unfortunately, constant replacement rates for initial benefits become unsustainable when the worker to beneficiary ratio deteriorates. Today, we know that the ratio is about 3 workers for every beneficiary and is expected to fall to unsustainable levels (about 2:1) around 2030.

In the late 1970s and early 1980's, high inflation rates caused a serious and immediate financing crisis for the program. President Ronald Reagan appointed a blue-ribbon panel known as the Greenspan Commission to study the financing issues and recommend legislative changes. As a result of the Commission's findings, Congress made significant changes in the program in April 1983. The major provisions included:

- Gradual increase in the normal retirement age from age 65 to age 66 by 2009 and 67 by 2027.
- Expanded coverage to newly hired federal civilian employees and those working in non-profit organizations.
- Acceleration of scheduled tax increases for employers and employees.
- Permanent increases in self-employment tax rates.
- Inclusion of up to half of Social Security benefits in the taxable income of higher income beneficiaries (this money would then be transferred to the Social Security trust funds).

The 1983 amendments were designed to achieve solvency for the 75 year projection period by initially building large Trust Fund reserves which could be used to cover costs in the future. As designed, it was clear that near the end of the 75 year period, the trust funds would run cash flow deficits prior to its exhaustion. A sustainable reform of the system requires actuarial balance over the 75 year projection period and stable or rising Trust Fund balances at the end of that period.

1990s and Beyond

While a number of amendments have been legislated since 1983, many of these, such as the Social Security Administrative Reform Act 1994 that established the Social Security Administration as an independent agency, have impacted more or how Social Security operates as an agency. There have been few programmatic changes. The 1993 amendments made up to 85 percent of Social Security benefits subject to income tax for individuals whose income, plus one-half of their benefits, exceed $34,000 (single) and $44,000 (couple), with the additional revenue credited to the Health Insurance (HI) trust fund. And in April 2000, legislation was enacted to eliminate the retirement earnings test at the full-benefit retirement age, giving today's retirees the opportunity to supplement their incomes and to continue to contribute to society through work, if they choose, without reducing their Social Security benefits.

However, while the actions taken in the 1980's resolved the immediate short-range financing crisis, the issue of long-range solvency arose again in the 1990's. These issues were addressed directly by the bipartisan 1994–96 Advisory Council on Social Security and have been the center of a continuing national debate since then. Throughout this debate, the importance of preserving Social Security for those members of our society who depend upon it—the elderly, women, minorities, and people with disabilities—has always been of primary concern to policymakers.

As I stated earlier, Social Security quickly evolved from a program for retired workers to one affording economic protection to the entire family. Over one-third of today's Social Security beneficiaries are not retirees. The program has since developed into one that provides a large measure of economic well-being for millions of Americans. Today, Social Security provides not only retirement benefits but valuable survivorship and disability insurance for workers and their families.

As you well know, the Social Security program is gender and race neutral. We treat individuals with identical earnings histories the same in terms of benefits. However, due to demographic trends, certain groups—like women—benefit from various features of the Social Security program.

These features include a progressive benefit formula, automatic cost-of-living adjustments and guaranteed benefits for dependants and survivors.

Women—who on average live longer, make less money and spend more time out of the workforce raising children than men—find these elements of the program's benefit structure particularly helpful.

Social Security has provided a solid floor of financial protection that has allowed the great majority of Americans to retire with the dignity that comes from financial independence, without fear of poverty or reliance on others for nearly 70 years. In addition, it has developed into the most important program to prevent families from falling into poverty upon the sudden and often unexpected loss of income due to the worker's disability or death.

As my testimony illustrates, the history of the Social Security program is a history of change. And Social Security will need modifications in the future to address the challenges the program is currently facing. Today, the country's demographics are working against us: Baby Boomers are rapidly approaching retirement, families are having fewer children, and people are living longer. As America ages, it will become more and more difficult to pay promised benefits without making changes.

While we are in sound fiscal health in the near term, I believe—as do my fellow trustees—that the future projected shortfalls should be addressed in a timely manner to allow for a gradual phasing in of the necessary changes. The sooner adjustments are made, the smaller and less abrupt they will have to be.

Payroll taxes coming into Social Security will cover all currently promised benefits until 2017. In that year, Social Security will need to use the interest earned on the bonds to help pay benefits and then begin redeeming the bonds themselves.

These bonds—backed by the full faith and credit of the United States Government—will be gone by 2041. Unless changes are made there will only be enough money coming into the system to pay 74% of promised benefits at that time.

Ask yourself how your personal life would be affected if all of a sudden you learned that your salary was being cut by 26 percent. For most Americans this sort of reduction would be difficult—if not impossible—to absorb. For the two-thirds of Americans receiving benefits from Social Security who depend on our checks for the majority of their income, it is a drastic measure that we must avoid. Our parents and grandparents could feel assured about the promise of a secure future. I believe that we have an obligation to ensure that Social Security's safety net is also there for our children and grandchildren.

As a nation, we have a proud history of grappling with difficult issues, and we have done this best when we work together. Social Security is no exception.

Since 1935, Congress has legislated changes as necessary to meet the changing needs of the American people and to ensure that the program was adequately funded to provide for these changes. I am confident that we will do so again.

I want to again thank the Chairman for holding today's hearing. As President George W. Bush said, "This country has many challenges. We will not deny, we will not ignore, we will not pass along our problems to other Congresses, to other presidents, and other generations. We will confront them with focus and clarity and courage."

With the President's leadership and that of this Committee, I am certain that we will address the needs of our changing society and provide for a Social Security program that our citizens can count on to be there for them. Let me take this opportunity to make clear that current and near-beneficiaries can be assured that their scheduled benefits are secure and will be paid.

Our actions must signal to younger generations of Americans that we are committed to strengthening Social Security. By doing so, we restore their faith and confidence in the most successful domestic program in our Nation's history.

As the discussions on strengthening the program continues, the Social Security Administration will be available to provide assistance to the Congress in the analysis of any proposed changes and we will continue to faithfully serve the American people to the best of our ability.

I want to thank you again for inviting me to testify. I would be happy to answer any of your questions.

Chairman MCCRERY. Thank you, Commissioner Barnhart. You stated in your written testimony that if Congress fails to act to strengthen Social Security the trust funds will become exhausted, and at that point there would only be sufficient money coming in through the payroll tax to pay about 74 percent of benefits. Is that according to the Social Security actuaries?

Commissioner BARNHART. It is. It is according to our independent Social Security actuary, and as published in the Trustees' Report most recently issued, the one in March of this year.

Chairman MCCRERY. Obviously, if a worker faced a 26-percent cut in his salary, that would be a pretty dramatic consequence for him and his family. So, that would be something that we would, I hope, try to avert as a cliff at some date, whether it is 2041 or

2042, or even 2052, as the Congressional Budget Office (CBO) says. We would like to avert that cliff from occurring. Whenever that date is—and your actuaries say 2041 now, I believe—doesn't that reduction in benefits get worse following that year?

Commissioner BARNHART. In fact, the reduction benefit moves from 26 percent to 32 percent over time. Yes, I think that is the point the Chairman is making.

Chairman MCCRERY. Yes, ma'am.

Commissioner BARNHART. That 26 percent is the initial reduction that is required in 2041, but over time, as ever increasing numbers of boomers are collecting benefits and people are coming in after them, eventually it would require a 32-percent reduction in benefits by the end of the 75-year period.

Chairman MCCRERY. So, initially, there is a 26-percent cut in benefits, but it does not just stay there. So, the system wouldn't be capable of paying 74 percent of the currently promised benefits forever?

Commissioner BARNHART. No. Absent any changes, that is absolutely correct, Mr. Chairman.

Chairman MCCRERY. Which brings up the question, I think, of how we fund a plan like this. The pay-as-you-go system, while it worked well when we had a lot of workers for every retiree, has changed dramatically because of the demographic changes that you have spoken about, and now we have approximately 3.3 workers for every retiree, and that is going down. In your opinion, and I know you have looked at this in your capacity as Commissioner and in other public service, does it make sense for us to examine perhaps prefunding some of the out-year obligations, and investing that prefunding in real assets to get a higher rate of return and help us with those obligations in the out-years?

Commissioner BARNHART. Let me say a couple of things, if I may. The Chairman has made a number of important points. The first is that it is really important that whatever we do, we take action sooner as opposed to later. The fact of the matter is, the sooner action is taken, the greater the range of choices, the longer time people have to adjust to the changes, and the changes can be gradual and phased in, not unlike what happened with the 1983 legislation in terms of increasing the retirement age.

In terms of the point about the prefunding, I think clearly this whole situation is due to demographics. We have seen the number of workers to retirees shrink over time, and it is going to go down even further. We are at 3.3 workers per retiree today; eventually, it will go down to two, and then below two. That is the problem as we look ahead at the promised level of benefits. There is no question that if you engage in some sort of prefunding, one of the things you do is reduce the potential burden on future taxpayers. There is no question about that. As you look out over time, many private pension plans rely on prefunding to some degree, not necessarily in total, but most plans do have prefunding to some degree.

Chairman MCCRERY. In fact, the government requires it, don't we?

Commissioner BARNHART. Yes, in fact, we do.

Chairman MCCRERY. Yes. So, it would seem that if it made sense for private pension plans, it might make sense for our pension plan for the Social Security system. As far as I know, there are only two ways to do that, direct government investment into real assets of the Social Security Trust Fund, or personal accounts. Can you think of another way that we could prefund the system?

Commissioner BARNHART. Right at this very moment I am at a loss to come up with another way. There may be people who work in the field of insurance and investment that could come up with something, but, no, I can't come up with others at this point.

Chairman MCCRERY. Lastly, let us talk about this issue of disability benefits because a lot has been said about—well, the President's plan would not only reduce retirement benefits but would reduce disability benefits. To your knowledge, has the Administration proposed any plan that would cut disability benefits?

Commissioner BARNHART. It is my understanding that it is the President's intent that disability and survivors' benefits remain intact, and that the issue really is—whatever the ultimate plan ends up being-looking at the transition from disability into retirement.

Chairman MCCRERY. So, you don't know of any Administration plan that would specifically cut disability benefits?

Commissioner BARNHART. I don't know of any plan like that, no.

Chairman MCCRERY. As the Commissioner of the SSA, don't you think you would know if there were such a plan?

Commissioner BARNHART. I think the President has made clear in the statements that he has made publicly that his intent from the very beginning was that the disability and survivor programs must be preserved—that was one of his original six principles. Since then, there have been a number of opportunities and public appearances to address that issue, and it is my understanding that the intent is that the disability and survivors programs be protected.

Chairman MCCRERY. Thank you very much. Mr. Levin?

Mr. LEVIN. You said disability and survivors?

Commissioner BARNHART. Yes.

Mr. LEVIN. Do you know what was in Plan Two of the Social Security Commission appointed by the President?

Commissioner BARNHART. I am generally familiar with it. I couldn't speak to every single detail, but yes, I am generally familiar.

Mr. LEVIN. Do you know that under that plan both survivors and disability benefits would be cut?

Commissioner BARNHART. I am aware of that, but as I also recall, if I may say, Mr. Levin, is that the Commission stated in their report that that should not be considered a recommendation on their part to take that action as far as disability.

Mr. LEVIN. It was in the Commission Two Plan, was it not?

Commissioner BARNHART. It was in the plan, but they did make that point.

Mr. LEVIN. That plan was called a good blueprint by the President. I know you are an appointee of the President, but I do think it is important that the record be straight. He called that a good blueprint. Tell me where the Administration has officially said that

there would be no cut in survivors' benefits? For example, what the President suggested, the middle class benefit cuts, would that not apply to disability benefits?

Commissioner BARNHART. I think that my—again, I can only say what my understanding is, Mr. Levin, and my understanding is that the disability——

Mr. LEVIN. I am talking about survivors.

Commissioner BARNHART. My understanding was that it was the intent to protect those programs and those benefits.

Mr. LEVIN. I think you are wrong. I think the survivor portion, when the President proposed it, was not taken out from those cuts. Isn't it true if you would exempt both disability and survivor benefit cuts, you would have to have even more cuts for retirees in order to address solvency?

Commissioner BARNHART. I think, obviously, it would depend on how one chose to approach——

Mr. LEVIN. Right. If you immunize those portions, it affects the retirement programs, doesn't it?

Commissioner BARNHART. Well, depending on how one goes about financing the reforms that one puts in place.

Mr. LEVIN. The more you exempt people from those cuts, the more you have to look elsewhere, right?

Commissioner BARNHART. Well, I think it is true that in terms of looking at what the total solvency shortfall is, if you look at protecting certain categories of people who are receiving benefits today—and I think that is what you are saying—then you do have to look at making up the difference in the shortfall in other places. However, it would depend on how the Congress and the President ultimately decided to approach the whole solvency issue.

Mr. LEVIN. Does Mr. Hubbard work for the President?

Commissioner BARNHART. To the best of my knowledge he does, yes.

Mr. LEVIN. Did he not say recently that the middle class benefit approach, benefit cut approach put forth by the President would apply to survivors?

Commissioner BARNHART. To be honest, Mr. Levin, I couldn't speak to what every single person has——

Mr. LEVIN. He is not a single person. He is an adviser on Social Security.

Commissioner BARNHART. I understand, but there are many people that are speaking on the issue around the country, and obviously, I do my best to keep up with what everyone is saying, but I am really not in a position to speak to what every person allegedly said in a particular setting. I apologize, but I am just really not in that position to do so today.

Mr. LEVIN. The 26-percent cut that you mentioned, that would be a cut from what was scheduled under wage indexing, correct? So, with the 26-percent cut people would still be receiving more in real dollar terms then than a recipient is receiving now?

Commissioner BARNHART. Just to clarify——

Mr. LEVIN. The answer is yes, right?

Commissioner BARNHART. I want to make sure I understand what you are saying. The current benefit is waged indexed, and the 26 percent reflects a cut in that wage indexed benefit. So, what you

are asking me is, is that more or less than—I just want to make sure I understand.

Mr. LEVIN. Than someone today is receiving. In real dollar terms it would be a cut from the projected increase, the scheduled increase under wage indexing, but that amount would be higher than a beneficiary is now receiving.

Commissioner BARNHART. My understanding is that all benefits, whether it is price indexing or wage indexing, the benefit still goes up as compared to today.

Mr. LEVIN. It goes up much more under wage——

Commissioner BARNHART. In real dollars. Obviously, it goes up much more.

Mr. LEVIN. I think the answer to my question is yes. We just——

Commissioner BARNHART. Well, I guess I would say though that depending on how one does the price indexing——

Mr. LEVIN. No. I am talking about right now, wage indexing is there. I am saying if it is not modified, somebody would be receiving more today with this 26 percent cut. It would be a 26 percent cut from the wage indexed benefit, right?

Commissioner BARNHART. That is right. That is what the 26 percent cut would be.

Mr. LEVIN. Okay. I just wanted to finish by saying we can hear today from everybody about strengthening Social Security. In our judgment you don't strengthen it by replacing it. Thank you.

Chairman MCCRERY. Mr. Shaw?

Mr. SHAW. Mr. Chairman, I think the questions I had thought to ask are all out the window now that Mr. Levin has completed his comments. As I understand Mr. Levin, in answering his own question, said that the benefits would be a better deal with a 20 some percent cut, which for some reason goes over my head. I don't really understand that, because I think that the workers are——

Mr. LEVIN. I didn't say that.

Mr. SHAW. I didn't interrupt you. This would be a severe cut. It would be—it would throw literally tens of thousands or hundreds of thousands of our senior citizens into below the poverty line. This is what we have to avert. Mr. Levin also commented in saying that the President said that the second plan that was in the Commission report was a good blueprint. That is in error. The President said that the Commission report was a good blueprint, and there were many plans in there. There were three of them and one of them actually is an add-on. I would like to comment too on what Mr. Levin said in setting out his blueprint, much of which I agree with. He said no decrease in benefits. I don't think we have to decrease benefits, and I am going to work hard to pass a plan that doesn't decrease benefits, and I am not talking about the 27 percent cut not being a cut in benefits, because I certainly do understand that it is. In fact, if you look at H.R. 750, the "Social Security Guarantee Plus Act of 2005," it maintains the existing level of benefits.

Mr. Levin also said we must retain the guarantees under Social Security. If you look at H.R. 750, it does guarantee. In fact, the name of the bill is the Social Security Guarantee Plus Plan. Then we have to go back and say, well, how do you maintain these guar-

antees? Do you maintain them through a promise to borrow? Do you maintain them by increasing taxes, or do you maintain them by now starting to prefund Social Security for younger workers? Commissioner Barnhart, do you understand that those are the choices if we are going to maintain benefits, or can you think of anything to add to——

Commissioner BARNHART. In terms of the——

Mr. SHAW. That I have just given?

Commissioner BARNHART. The array of choices that we have?

Mr. SHAW. Yes.

Commissioner BARNHART. Traditionally, as you look back over time, Congress has made changes in the program and the funding issue has been dealt with through tax increases, changes to benefits, increasing the retirement age, which ultimately is a change in benefits to some extent because it affects when you get them and how much you get at different ages. So, I think generally it is agreed that the options that lie before us as we move ahead to try to deal with the financing shortfall pretty much come down to three areas: to increase taxes, to adjust benefits, or to increase the rate of return that we get on the money going into the system.

Mr. SHAW. In your comments you talked about many changes at Social Security, and they have been for the better. The one change that isn't for the better is the demographics, and the question is how many workers are paying into the system now for every retiree? Back in 1935 it was over 40 workers per retiree. The system worked very well. Life expectancy was less than 65. I think it was 62, and the benefits didn't really start until 65, so, the program was very, very solvent. There was no problem. The pay-as-you-go system was a good plan. Now, we are down though to three, a little over three workers per retiree, and we are headed, because of the fact we are living longer and having fewer kids, toward a situation where we are going to have two workers per retiree. That would simply mean in plain terms that if we are going to guarantee the benefits, that means two workers have to care for one beneficiary under Social Security. That is just too heavy a load, particularly for people that go from paycheck the paycheck. Also, the alternative of borrowing, we are looking at a $26 trillion cash shortfall. Now we can talk about it in terms of present dollars, but the actual cash shortfall over the next 75 years is $26 trillion. Our economy cannot sustain that.

So, obviously, right now you would never devise a program today for Social Security that is identical to the one that we have currently. You would add something to it. You wouldn't provide for a program where the surpluses are going into the General Fund. You would retain them and invest them in something for the American workers. That is how I see the future of Social Security if we are going to care for the next generation and quit worrying about the next election. That is more important. Saving Social Security is much more important than anybody's reelection in this U.S. Congress. Thank you, Mr. Chairman. I yield back.

Chairman MCCRERY. Thank you, Mr. Shaw. Mr. Pomeroy.

Mr. POMEROY. Thank you, Mr. Chairman. Well, I think we have heard a new one today, prefunding. This is an effort that has an ideological objective, privatizing Social Security. It is an objec-

tive in search of rationale. So, initially we heard you were not getting enough return on your Social Security, only now to have the President propose a lower return as they change from wage to price index. We heard that the system was in crisis, had to privatize Social Security, it was in crisis, until people looked at the thing being able to pay benefits as scheduled for the next 37 years, and figure we had a little time to work on this. So, that one didn't work. So, now it is prefund, we are going to prefund. Well, that all sounds fine and good too until you realize that prefund means dollars in an account, benefit guarantees reduced, benefit stability reduced.

Commissioner, I find your testimony very interesting. I have at times previously extolled your administration of Social Security because I think you are doing a terrific job.

Commissioner BARNHART. Thank you.

Mr. POMEROY. We have not had a chance to talk about really the philosophical design, and I understand that is really not your core responsibility. You have got to make the trains run on time, get the checks out over there, make the system work. Is that correct?

Commissioner BARNHART. That is correct.

Mr. POMEROY. Do you view yourself as a premier architect or participant in the great Social Security privatization debate?

Commissioner BARNHART. I view myself as a person making sure Social Security is a place where you, all the Members of this Subcommittee, all the Members of Congress, and the President and Members of the Administration can come to to get the facts about the program, to get the facts of the——

Mr. POMEROY. I think you have given us some important facts today. Two-thirds of those who receive a Social Security check, that is most of their income, 20 percent, it is all their income. I heard about a figure of something like one-third, it is 90 percent or better of their income. Would that be about right?

Commissioner BARNHART. That is about right, yes, it is.

Mr. POMEROY. What is the average Social Security check?

Commissioner BARNHART. The average Social Security check right now is somewhere around $955 a month.

Mr. POMEROY. In my State, as of last year, I believe you and I spoke about a check that averaged about $834 a month.

Commissioner BARNHART. That is for an individual, and for a couple it is somewhere around $1,600, and it goes up, obviously, if you have a couple.

Mr. POMEROY. For an individual, the $834, is that right?

Commissioner BARNHART. I believe $834 is the disability payment, Mr. Pomeroy, the average disability payment.

Mr. POMEROY. A year ago the disability payment was I think $700 and some.

Commissioner BARNHART. For '04, the average benefit for a disabled worker is $894, a retired worker is $955.

Mr. POMEROY. North Dakota or national?

Commissioner BARNHART. That is national. North Dakota may be different, that is very possible.

Mr. POMEROY. It is lower, based on the lower——

Commissioner BARNHART. Yes, that is very possible because of the lower earnings perhaps.

Mr. POMEROY. —lower statistics. I am just looking at it from the perspective I have. Costs are higher in other places, which offset the higher check.

Ms. BARNHART. Right.

Mr. POMEROY. I think that if you have people—in fact, it is a high possibility that those depending on Social Security for all their check have a lower than average check because they would have had a lower than average earning history, reflecting their inability to save or have other retirement. That is why they are so dependent upon Social Security. So, as I think about the North Dakota check in the mid to low 800s, I am thinking, if you add volatility to this, with this thing bouncing around depending on where the stock market goes, or if you change the wage replacement value because you no longer have a wage index, you have a price index if you make over $20,000 a year, you definitely raise questions about whether a person will be able to live on that Social Security check.

It is my view that volatility or benefit cuts off of the average check raise real questions about the ability of people to live independently, for that some significant portion, about one-third of all recipients, that depend on it for 90 percent or more of their check. Would you agree with that?

Commissioner BARNHART. I understand what you are saying, and I think the point that you are making, as I am hearing it, is that Social Security is even more important for the most vulnerable people who are the people in the lowest quintile, or lowest one-third, of earners in the country, because they rely on it for a higher percentage if not all of their income and retirement, correct?

Mr. POMEROY. Yes.

Commissioner BARNHART. Yes.

Mr. POMEROY. That check, if it is either subject to stock market volatility or reduced because you change the index and it no longer accrues at its wage index value, you raise real questions in terms—if that amount, which is averaging in the 800 to $900 range now, is essentially lower for a future generation because we change the formula now, it will be harder for people to live on that independently; is that correct?

Commissioner BARNHART. I understand what you are saying, and let me say I agree, that is a view. Let me just add one thing, if I may, and not to be confrontational, but simply to say it in the interest of trying to explore these issues and look at them from all sides of the coin. One of the concerns that I have, as we move forward in discussing the solvency debate and the level of benefits and those kinds of things, is that we make sure that what we are measuring against, in terms of looking at the different ideas, is what the actual payable benefits are today and not the scheduled benefits. Because, as the Chairman pointed out, the payable benefit right now looks like—and as Mr. Levin discussed—is somewhere around 74 percent of what the scheduled benefit is.

So, one of my concerns—and when I look at this whole notion of risk, Mr. Pomeroy, one of the things I think we need to take into consideration is that the program today, absent any changes, is not risk free because you can pretty much be guaranteed, based on what our actuaries say, that you are going to have a 26-percent reduction.

Mr. POMEROY. I don't think anyone is suggesting we don't do anything, that we take—you talk yourself about how the program has been changed several times in history.

Commissioner BARNHART. It has, right, it has.

Mr. POMEROY. With 37 years out, we have time to change it.

Chairman MCCRERY. Thank the gentleman.

Mr. POMEROY. I yield back.

[Laughter.]

Chairman MCCRERY. Thank you very much, very generous. In fact, we hope to be talking about some ways to avert the 26-percent-cut in benefits, and in fact we have actually proposed concrete things to do that. We are still waiting for you all to do that. Maybe you have something better than prefunding. We would love to hear it. Mr. Hayworth?

Mr. HAYWORTH. I thank the Chairman. I listened with interest to the testimony of the Commissioner and the evaluation offered by the Ranking Member of the Subcommittee, and most recently by my friend from North Dakota. Mr. Chairman, my colleagues, I must say that I am, well, not completely astonished because we know that politics and policy are intermingled, but to hear such disparaging of even the exploration of prefunding, especially—and not to case personal aspersions, but knowing that my good friend from North Dakota, the former insurance commissioner, knowing that indeed this entire system was proposed by President Franklin Roosevelt, not only as old-age pensions, but a form of social insurance, if you will, knowing that a dynamic of insurance is prefunding in the real world, knowing that payroll taxes, although we have devolved into a pay-as-you-go system, knowing that in 1935 when you had 40 plus workers for every retiree, one of the basic perceptions of the program is, in fact, prefunding. I was a little curious to hear such venom utilized for the term, but that of course, is politics. We have to work on policy. My friend from Michigan said, as if it was a terrible, evil, devious plan, this observation from a Member of the Administration, quote, "Details would need to be worked out through the legislative process," close quote.

My colleagues, that is what we are engaged in, the legislative process to determine what is the best course of action. Good people can disagree, but to suggest that somehow a legitimate observation that, quite frankly, I believe all of us learned in civics class, that the legislative process comes up with an ultimate product that the President can either sign into law or veto, to somehow suggest that that is an assault on survivor's benefits or to at least leave that impression, is disingenuous at best.

Again, just for the record, because from time to time there tends to be smoke and mirrors rather than straight chronicling of what in fact has been said, our President has laid out goals for Congress in developing legislation to strengthen this program. Any attempt to quantify the financial effects reflects the views and assumptions of authors and commentators, not those of the President. In the final analysis, it will be this Committee and this Congress that must work together to save and strengthen Social Security. So, enough of the politics. Let us get again to the policy itself. Madam Commissioner, in your testimony you discussed the changes enacted in 1983 to achieve solvency over 75 years. Those changes en-

acted included raising the retirement age, taxing Social Security benefits, and some other modifications. By design it achieved solvency by building up the Social Security Trust Funds with full knowledge that the program would start running deficits much sooner. In the end, the amendments 1983 simply kicked the can down the road rather than providing a lasting—and by that, in Washington parlance—three-quarters of a century solution. Would you agree that a durable solution must do more than buildup bigger balances of Treasury IOUs in the trust fund; it must bring Social Security's income and costs in line with each other in the long run?

Commissioner BARNHART. I do think you make a really important point about this whole notion of how we look at solvency, and traditionally it has been looked at over a 75-year time period, and the Social Security Commission, I think it was in 1983, the Greenspan Commission, they defined sustainable solvency the way I did in my testimony, which was at the end of the 75-year period you have a situation where the trust funds are stable or rising. I think as we look ahead to the younger generations of Americans aging, we need to keep in mind, in my view, that we owe it to them to try to fix it permanently, to make sure that we are not, as you say, kicking the can down the road every so many years or every so many decades, and having to make adjustments to fix it.

One of the reasons I think that is so important is because the younger people in this country. If you talk to them—and I have a 16 and a half year—old, and his friends are over at the house all the time—and I talk to my friends, in their 20s who are just starting to work, and they really have lost confidence in the system. I think it is critically important that we restore confidence in the system. I was reading a long article in one of the national news magazines just the other day, and it was pointing out how Social Security had been important to generations of families over a lifetime, but the most recent generation, the newest generation, the 20-somethings that are working in department stores now, are basically saying, I don't have any faith at all that it will be there when I retire. I think that is the issue that we want to address through sustainable solvency.

Mr. HAYWORTH. Thank you, Commissioner Barnhart. Thank you, Mr. Chairman.

Chairman MCCRERY. Thank you, Mr. Hayworth. Mr. Becerra?

Mr. BECERRA. Thank you, Mr. Chairman. Commissioner, always good to see you. Thank you very much for trying to answer the questions. Obviously, sometimes it is difficult because this is an issue that is important to everyone. We don't yet have all the concrete details of any particular plan out there to really work off of, so, I know that sometimes when we ask you questions, we are asking you to project.

Commissioner BARNHART. I understand.

Mr. BECERRA. So, thank you for every attempt that you make to try to answer as best you can. I would like to go back for a second and ask about the trust fund. As the Commissioner it is your responsibility to safeguard the Social Security system which includes the trust fund.

Commissioner BARNHART. Right.

Mr. BECERRA. Let me just ask you straight out: does the trust fund exist?

Commissioner BARNHART. In my view, the trust fund absolutely does exist, because as required by law, when the payroll taxes come in every month, what we don't use to pay benefits in a given month is posted to the trust funds, credited, and then used to purchase government securities. That is required by law. We don't have an option but to do that.

Mr. BECERRA. So, we have Treasury certificates that are banked away that reflect the amount of money that is in that trust fund?

Commissioner BARNHART. In fact, in the past we have had to cash in those bonds on a number of occasions, and the government has made good. They are backed by the full faith and credit of the government, and that has always been the case. In fact, my understanding is the U.S. Government is one of a few Nations that has never defaulted.

Mr. BECERRA. Excellent. That was my impression. So, then what are we to make of President Bush's visit to the place where you held so many of these Treasury certificates? Was it grandstanding to say it is just Monopoly money, or should Americans believe that in fact in 20 years when those trust fund dollars are being redeemed, that they can count on that money being there?

Commissioner BARNHART. I think my recollection was that the President referred to them as IOUs, as——

Mr. BECERRA. I said Monopoly money, he said IOUs.

Commissioner BARNHART. That is what I remember.

[Laughter.]

Commissioner BARNHART. I can't remember everything everybody says, but I remember that one.

Mr. BECERRA. He did try to leave the impression that these are IOUs that may not be paid?

Commissioner BARNHART. I think that——

Mr. BECERRA. Did that not concern you as the Commissioner of Social Security?

Commissioner BARNHART. Well, he did call them IOUs. I remember that.

Mr. BECERRA. So, is it your sense that that means that he, like every other American who puts money through Federal Insurance Contributions Act (FICA) taxes into the Social Security system and the trust fund, believes that they will be paid?

Commissioner BARNHART. I assumed the point that he was trying to make was that in order to pay those bonds when they come due, that it is going to have to be taken out of other parts of the Federal budget.

Mr. BECERRA. In other words, we are taking money from the trust fund, using it for other purposes, but at the end, in the future, when we have a call on those securities, those Treasury certificates, the government will have to pay, but just has to find other sources to pay for that?

Commissioner BARNHART. In essence we are paying ourselves, yes, right.

Mr. BECERRA. So, today, this day, May 17th, the Administration is going to use $400 million in Social Security Trust Fund dollars and spend them on things that have nothing to do with Social Security. At the end of the year, when you total up the year, it will total up to what, about $170 billion in those trust fund dollars, Social Security Trust Fund dollars that the President will have spent on things other than Social Security. If there is some chance that these so-called IOUs will not be paid, wouldn't it be incumbent upon the President to today stop spending at the rate of $400 million a day those Social Security Trust Fund dollars that he is using for non-Social Security purposes?

Commissioner BARNHART. Well, again, not to be confrontational, Mr. Becerra, but I do feel compelled to point out that the funds get spent also by the Congress and by programs that—the budget gets approved by the Congress. The appropriation comes from Congress.

Mr. BECERRA. Very good point.

Commissioner BARNHART. So, I would like to make that point. Let me say, I think that is an important point to make, because there is nothing strange about that. That is the way the system has always worked. It is an issue that comes up all the time when I am interviewed, when I am doing call-in radio shows with people across America. They talk about the fact that Congress and the President are misusing the Social Security money——

Mr. BECERRA. Raiding the trust funds.

Commissioner BARNHART. Right, raiding trust funds, and in fact, that was the way the system was designed, and I explain that.

Mr. BECERRA. So, one of the things that we all should do is if we are talking about Social Security in trouble, there is a crisis, one of the first things we stop doing is spending Social Security moneys on non Social Security purposes, because the day of reckoning will come when we will need those trust fund dollars, and whether we have the trust fund moneys available or not, we are not going to shortchange Social Security recipients when they retire. So, I think to have an honest debate, you have to be honest in saying that today the Administration is spending $400 million a day in Social Security dollars on non Social Security purposes.

Let me ask you this. As the President talks about privatizing Social Security, we just heard recently, last week, that United Airlines has decided that it cannot pay on its pension benefits for its employees to the tune of some $10 billion that now, guess who, the taxpayers will be responsible for, and at the same time those United pensioners in the future will only get some pennies on their dollars. Who knows how much they are going to get. That was because those private pension dollars, those personal accounts that those United employees had in United pension plans, 401(k)s, are no longer there because United gambled with that money.

Whether it is United—and we hear that Delta Airlines may be right around the corner, and Northwest Airlines may be around the corner, or we could talk about Enron, which did the same thing to its employees, thousands of employees with these 401(k) plans, or we can talk about the city of San Diego, my State of California, which is on the verge—and Mr. Chairman, I will close with this comment—is on the verge of declaring bankruptcy because it too

fiddled with its government employee moneys in these pension 401(k) accounts. Why would you—I don't want to say you—why would anyone want to put our guaranteed Social Security moneys in a plan that could be a gamble, and wouldn't a Commissioner be out there saying, "Don't you dare touch those moneys that are guaranteed, and have been guaranteed for 70 years?"

Commissioner BARNHART. Well, I think, one of the points that is important to make is that there would be a lot to be worked out in legislation as we move forward, and I think that is one of the reasons when people have talked about personal accounts, they have used the Thrift Savings Plan as an example, because there are certain safeguards built into that. I think, obviously-

Mr. BECERRA. Talk to the San Diego employees who today are not guaranteed their benefits.

Chairman MCCRERY. The gentleman's time has expired.

Commissioner BARNHART. I think the situation you describe obviously didn't have the kind of safeguards that people would, obviously, be interested in having.

Chairman MCCRERY. However, on my time, I would like to ask Mr. Becerra a question.

Mr. BECERRA. Yes, sir.

Chairman MCCRERY. You made the point that we should stop spending those surpluses, and you used a figure that was incorrect. In this year, the cash surplus that is available for us to spend, is about $69 billion. You said we ought to stop spending that. If we were to stop spending that, what would you do with it?

Mr. BECERRA. You could pay down the interest on the national debt or the principal on the national debt, which would reduce our payments into the future. You could——

Chairman MCCRERY. How would it reduce our payments into the future?

Mr. BECERRA. Well, today we are paying, what is it, over $150 billion in interest simply on the national debt. If you reduce the principal that we owe, that reduces the amount of interest that you have to pay on the Nation's debt, which cumulatively will add up to billions and billions of dollars into the future. Actually, what I am proposing is nothing different from what President Bush first proposed when he came into office when he said he wouldn't have to touch Social Security when he enacted his tax cuts, but instead we find because of the deficits and so forth that he has had to, in essence, use all of the Social Security surplus to pay for the tax cuts.

Chairman MCCRERY. So, you are saying we could pay down debt and that would save us interest, wouldn't it? We wouldn't have to pay that interest.

Mr. BECERRA. It would.

Chairman MCCRERY. The same thing would apply to the trust fund, wouldn't it? If we don't have to pay that interest inside the trust fund it would be easier to make good on those obligations.

Mr. BECERRA. Well, the beauty of the Social Security system is that today the system runs a massive surplus so that the reason we have this surplus is because we are collecting more today than we need to pay out, so, there is a pot, a treasure pot that every worker in America is paying today into Social Security, that he and

she believes will be there in the future for them. If we were smart, we would use that money wisely to try to reduce our obligations into the future so that way, we have the opportunity and the ability to pay those same American workers who contributed money today come time when they retire. So, Mr. Chairman, I think——

Chairman MCCRERY. I agree with you. President Clinton, in fact, suggested that we save that money, not spend it, and invest it in the stock market, direct government investment, didn't he?

Mr. BECERRA. Well, that was part of his proposal to try to shore up Social Security into the long term, right.

Chairman MCCRERY. Right. So, that is another thing you could do if we didn't spend it, we could invest in the stock market and try to get interest, compound interest, working for the trust fund instead of against the trust fund, which it is now doing.

Mr. BECERRA. Right. The peculiar feature about President Clinton's proposal, which makes it a safeguard, is that rather than let 47 million Americans try to invest that money wisely, you would have one entity, so that when there are good days and you make a good investment, everyone benefits, and when there are bad days, everyone shares the loss, versus having 48 million Americans each trying to figure out if they had a good day or a bad day.

Chairman MCCRERY. That is a debatable proposition, and it is one debate that we would love to have. Mr. Hulshof?

Mr. HULSHOF. Thank you, Mr. Chairman. Am I correct, to my friend from California, that you joined this August body in 1993 after a '92 election? Is it not a fact that in 1993 and in 1994 and in 1995 and '96 and '97, while the gentleman was in the majority during those years, that——

Mr. BECERRA. You have given me about three or 4 years of extra majority that I would have loved to have had.

[Laughter.]

Mr. HULSHOF. The point is that Congress, during those initial years that the gentleman joined this body, Social Security was borrowed from, was it not; the excess payroll taxes were spent on other government programs, isn't that a fact?

Mr. BECERRA. The gentlemen is correct, that in those years President Clinton inherited what was then the largest budget deficit in the history of this Nation, of about $230 billion, and in order to come up with the money, President Clinton did use the Social Security moneys, and Congress allowed him to use those Social Security moneys. When President Bush took office, he came in with the largest budget surpluses in the Nation's history, and he still is using the Social Security surplus moneys as well. That is the difference.

Mr. HULSHOF. Commissioner Barnhart, let me confirm this. I think it is in your testimony. The actual disability portion of Social Security, disability, cash benefits were authorized under the amendments 1956, is that true, and the actual cash program began in 1957?

Commissioner BARNHART. That is correct, yes.

Mr. HULSHOF. The Ranking Member, in his opening statement, made a point—and I am trying to determine the relevance of the point—that at the time the disability insurance program was created, that all 10 Members, Republican Members, voted against the

disability insurance program. I have done a quick survey here, Mr. Levin. Not one Member on the Republican side presently serving on the Committee was here in Congress then. Is the gentleman suggesting that somehow those of us on this side of the aisle, as it relates to the disability portion of Social Security, that somehow we don't believe that it should be held in high esteem? Is that the point? The Ranking Member's statement, I am trying to determine the relevance of bringing up the fact that prior Congresses or other parties—would the gentleman wish me to talk about the civil rights debate of the '60s and the prominent Democrats that attempted to filibuster? What is the relevance of what happened in 1957 as it relates to the challenges that we are here to address with Commissioner Barnhart?

Mr. LEVIN. Will you yield?

Mr. HULSHOF. I will yield, yes, sir.

Mr. LEVIN. First of all—and I urge that you go back and look at the history not only in the '50s, the '60s, and that is, the voting records are clear when it came to creation of disability and to other improvements in Social Security after that.

Mr. HULSHOF. Let me——

Mr. LEVIN. Let me just finish.

Mr. HULSHOF. Okay.

Mr. LEVIN. The Democrats overwhelmingly favored, and Republicans in the majority disapproved of those improvements, number one. Number two, we have never proposed to diverting Social Security moneys into private accounts which could well have the impact of affecting disability payments, because if you look—what happens if you have private accounts——

Mr. HULSHOF. Well, I am going to reclaim my time, Mr. Levin. You have had your time and you have made your point.

Mr. LEVIN. I surely have made my point.

Mr. HULSHOF. The point is—I would say to the gentleman, and, Mr. Chairman, my disappointment runs deeply because when I was first allowed to serve on this Committee under then Chairman Jim Bunning, then under the gentleman from Florida, and had the opportunity to work with Ranking Members Coyne and Canelli and Matsui, as far as the disability program was concerned—and this Member particularly, as it relates to the Ticket to Work and Work Incentives Improvement Act (P.L. 106–170), where we expanded, Republicans led the effort to expand the disability program, to remove obstacles in the workforce so that people with disabilities can continue, as far as vocational rehabilitation services, as far as maintaining Medicaid or Medicare, health care services.

So, again, the point is, here we are today, and you are watching this tennis match, Commissioner, and that is unfortunate because the challenges are real. I would say to my good friend from North "by gosh" Dakota, the gentleman shared a stage with me in 1998 in Kansas City, Missouri, and the word "crisis," the first time I recall a prominent occupant of the Oval Office mentioning the word or using the word "crisis" as it relates to the demographic challenges of Social Security was when the gentleman and I, along with Senator Santorum and then Senator Bob Kerrey and President Bill Clinton, in the first ever great debate when he announced that there was a crisis facing Social Security, which again I thought was

very useful at least to—and we are having the same discussions today as we did in 1998 about the demographic challenges.

So, I would, again, Mr. Chairman, I would take the tact that you have taken, and I tip my hat to the gentleman from Florida, Mr. Wexler, and while I am not necessarily in support of his idea, at least now there is an idea on the table about addressing these shortfalls, and I am disappointed that, as the gentleman from Arizona has said, sometimes I think the politics overruns the policy. Thanks for the time.

Chairman MCCRERY. Thank you, Mr. Hulshof. Ms. Tubbs Jones?

Ms. TUBBS JONES. Good afternoon. How are you?

Commissioner BARNHART. Good afternoon, thank you. Fine.

Ms. TUBBS JONES. It is so interesting that it is politics when you are talking about the other party and it is policy when you are talking about your own, but we all are political. That is why we've got political parties operating here on the Hill. I am just so pleased to have you back, Commissioner Barnhart. Let us talk about women for a moment since we are so well represented on this Committee.

[Laughter.]

Chairman MCCRERY. I will second that.

Ms. TUBBS JONES. Oh, thank you very much. We are agreeing on something. The fact is that in its inception, Social Security was intended to kind of help out—not in its inception, as it moved along—the woman who was working in the home, not working outside the home, and the payments for that work, was actually through the spouse's earnings. Then as time moved along, some considerations were given to working women. A lot of women to this day say that sometimes their benefit might have been better under their own ticket than under their spouse's ticket, and are—I don't want to say anger—but disappointed that they are not receiving the bigger dollar.

Commissioner BARNHART. I think the issue you are pointing out is a really important one, but I believe—just to clarify, if I may.

Ms. TUBBS JONES. Please.

Commissioner BARNHART. The situation you are describing is that typically with a lower-earning spouse, and generally it is the wife, because women make less than men generally, the couple is entitled to, in the case of a one-earner couple, the male's Social Security and then half as much for the spouse. What happens if you have a two-earner couple, because again, women's salaries are often lower than men, is that even though Social Security is gender neutral and we do calculate the same benefit for a woman as for a man, often her benefit in her own right ends up being less than 50 percent of the higher-earning spouse's benefit. So, therefore, the woman feels like hers didn't really count.

Ms. TUBBS JONES. Right. The other thing that we don't have a lot of discussion about, but the fact is that a non-working spouse at a younger age, under a disability or survivor program, is likely to get a greater benefit under the program should her spouse become—with minor children, should her spouse become disabled or die.

Commissioner BARNHART. That is because of the total family benefit, you are absolutely correct, when you add up all the——

Ms. TUBBS JONES. Right. For many low-income families, the ability to purchase that type of insurance, they don't have the ability to purchase the kind of insurance that Social Security provides either under disability or survivor.

Commissioner BARNHART. That is why I think it is important for people to remember that Social Security is not just about retirement. It is disability. It is survivors, and in fact, a little known fact that most people don't focus on, one in three of our people who are receiving benefits are not retirees.

Ms. TUBBS JONES. The fact is that the debate about whether or not African-Americans should be—there should be some discussion about increasing the benefit for African-Americans as they retire, really does not take into consideration—because they die early, does not take in consideration the benefits that they receive under either a disability or survivor program, or their families receive.

Commissioner BARNHART. Well, I think it depends on how you look at it, quite frankly—one can say that if you take someone who is in a similar situation but who happened to live 10 or 15 years longer than the particular African American you are talking about, they would have reaped more benefits from the system than the individual you describe by moving on to receive more retirement benefits.

Ms. TUBBS JONES. The fact is that an African American family, low-income African American family could not purchase the disability or survivor benefits with dollars that they receive under Social Security.

Commissioner BARNHART. I think it would be difficult for anyone to do that, frankly.

Ms. TUBBS JONES. Right. What is—let me strike that question and go back. I kind of lost my thought for a moment there. As we move along down this path of discussion of Social Security, it is your position that we should strengthen Social Security. Is that correct?

Commissioner BARNHART. I believe we should strengthen Social Security for future generations, make sure that it is there and there is sustainable solvency for the future.

Ms. TUBBS JONES. Well, the commercial I like most is where the plumber comes into the lady's house and he says I'm there to fix the sink.

Commissioner BARNHART. I have seen it.

Ms. TUBBS JONES. He says I have to tear down the house, and the response is, Don't do Social Security like that. If you only need to fix the sink, don't tear down the house to do it. Would you agree with that?

Commissioner BARNHART. Well, I have seen that commercial, so, I——

Ms. TUBBS JONES. It is kind of funny, isn't it?

Commissioner BARNHART. I know the one that you are talking about. I don't know, those commercials strike a little close to home for me, so, I can't seem to laugh when I see them, particularly with my husband and son sitting there watching them sometimes, and

saying, "Mom, what are you going to do about that?" So, let me say that I understand the point that you are making. I guess I would say this: I do think that as we consider changes and as we help you consider the changes and what you are going to do as we move forward, hopefully, together and in a bipartisan fashion, I think it is important to make sure that what we are creating and ensuring is a program that is going to be safe and secure in the future.

Ms. TUBBS JONES. Thank you, Mr. Chairman.

Chairman MCCRERY. Thank you, Ms. Tubbs Jones. Mr. Lewis?

Mr. LEWIS. Thank you, Mr. Chairman. I have seen that commercial, by the way, and I remember reading some scripture that says if you build your house on the sand, when the wind and rain and the storms come, that house will be blown away. You build it on a rock, and it will stand. I think the foundation at Social Security——

Ms. TUBBS JONES. God is not going to let us legislate that in Congress.

Mr. LEWIS. Excuse me. I think it is my time. If you look at what Social Security has been built on, the demographics just don't work. When you had 40 people paying in to Social Security and one person on retirement, that was wonderful. Now we are down to three and eventually down to two. So, I think we have built it on the sand. It has been a great program. I have an 88-year-old father that depends on Social Security. I also have a daughter and a son that 1 day will have to depend on Social Security, maybe.

I keep hearing the full faith and credit of the United States Government and that they will—the full faith and credit of the United States Government will stand behind the Social Security system and will pay the IOUs. Well, IOUs aren't a lot of comfort for my kids. Just saying that the full faith and credit of the United States Government is going to make sure that it is going to be there, when they know and I know that the government will be them, the taxpayer, future generations. My grandkids will have to pay for my children's retirement, their Social Security. So, isn't it correct that the government, the full faith and credit of the government will be the future generation that will have to pay for the Social Security on a pay-as-you-go system?

Commissioner BARNHART. That is true. I think that there is an important point that may be getting lost, or maybe not—maybe it is just being lost for me. That is, when we look at where the trust fund balances are now, they are at about $1.7 trillion. Our actuaries project that if you look at it over the 75-year period, even assuming that the trust fund money is all there and piled on this table today or in a bank and earning interest—and it is earning interest, in fact, in the bonds—we still need an additional $4 trillion today in the bank and earning interest.

One of the great misconceptions that exists, and I say this from, again, my public appearances and taking calls from average Americans across the country and going out and talking to them, is that somehow the trust funds alone are enough to do the trick. They simply are not. That is a point that can't be lost in all of this, that it is not a question of only full faith and credit backing the $1.7 trillion in the trust fund, it is that it is over 75 years there is a

$4 trillion shortfall, and using the infinite horizon measure, it goes up to $11 trillion.

Mr. LEWIS. Yes, we just had testimony a few weeks ago from David Walker, the Controller General of the U.S. Government Accountability Office (GAO), and when you look at our overall unfunded liabilities and debt facing the country, our kids and grandkids have a tremendous burden to face if we don't start trying to solve some of these problems now. Social Security is one that we must start to tackle now. As you just mentioned, it is going to add up to trillions and trillions of dollars that we just can't stick in the sand and play politics and, as Clay Shaw said a little while ago, we cannot afford to play politics with this. We have to bring every idea to the table that we can possibly bring, and try to solve it now. The Wizard of Oz isn't going to be out there cranking out dollars to take care of these problems sometime in the near future.

David Walker said that by the year 2041, that the money coming into the Federal treasury will only be enough to take care of the interest on the debt. There goes all the entitlements. So, it is time we all get real about these real, real serious problems. Thank you.

Chairman MCCRERY. Thank you, Mr. Lewis. Mr. Neal?

Mr. NEAL. Thank you very much, Mr. Chairman. One of the points I just want to touch upon that Mr. Lewis raised about his children and IOUs in the future. If he had minor children and something happened to him today, there is no doubt as to how the Social Security Trust Fund would react, right?

Commissioner BARNHART. It would pay survivors' benefits.

Mr. NEAL. It would pay survivors' benefits. Incidentally, Commissioner, I know something about survivor benefits and so do my sisters. Very important consideration. I heard a few minutes ago, with astonishment, one of the Members of this Committee say that it was unfair to bring up the history of this program or to bring up the history of actions by Members of Congress. There isn't a Member of this Subcommittee who has not used the words, actions or votes of their opponents during campaigns to make a point about why they should be elected to replace that person.

Here is the nub of the problem, Commissioner. When I came to Congress 17 years ago, the Minority Leader, or the Republican leader in the Senate and the Republican leader in the House had both voted against the establishment of Medicare. Recall that Roosevelt's initiative was the middle ground. The left didn't like it, and the right chided it as being a Marxist initiative. Yet we hear the same party today in the majority talk about what a great and important program it has been for all of the American people. They ask us to kind of forget the history of their position as it relates to Social Security. Now, let me be a little bit more specific. How many children are there in America today who receive survivor benefits?

Commissioner BARNHART. Children who receive survivor benefits, I think it is somewhere around 6 million or so, 4 to 6 million.

Mr. NEAL. Maybe the staff is going to give you an accurate number.

Commissioner BARNHART. The total survivors are 6.7 million. The number of children is 2 million.

Mr. NEAL. Thanks for emphasizing that point, that one-third of the Social Security beneficiaries today are not retirees. That is a very important consideration in this discussion. Now, how many women rely solely upon Social Security?

Commissioner BARNHART. The number of women beneficiaries who rely solely on Social Security is 29 percent of unmarried, elderly women. That doesn't mean they were never married. It can mean widows. It includes women who outlive their husbands, or are single their whole life, or divorced. For them, for 29 percent of these women receiving Social Security, it is their only source of income.

Mr. NEAL. Only source of income. Do you have an average dollar amount on that?

Commissioner BARNHART. The average dollar amount for women's benefits? I don't have that offhand. I don't think my staff brought that with us. We tried to anticipate most of the Committee's questions. Ah, it looks like they may have. I am looking here to see the—$826, the average women's benefit.

Mr. NEAL. Eight hundred twenty-six dollars, as a sole source of support in retirement?

Commissioner BARNHART. Yes.

Mr. NEAL. I don't think anybody on this Subcommittee would argue that they are getting wealthy on that amount of money. Let me ask you this specifically. You signed as a trustee the recent——

Commissioner BARNHART. Yes, I did.

Mr. NEAL. You did. The recent report——

Commissioner BARNHART. Yes, the report. Yes.

Mr. NEAL. That report, if I am not mistaken, said that Social Security in its current form would pay full benefits through 2041 or 2042?

Commissioner BARNHART. That is correct.

Mr. NEAL. The CBO, which tends to be pretty accurate, a nonpartisan arm of the Congress, they said 2052?

Commissioner BARNHART. They said 2052. That is right.

Mr. NEAL. Now, the President took that information and he went out across the countryside for 60 days and he said Social Security was in crisis. As a trustee and as one who signed that report, would you argue that Social Security is in crisis?

Commissioner BARNHART. Well, if I can say—my reaction to your question is this: As Commissioner of Social Security, the program which 95 percent of Americans rely on, my view is that it is too important a program to get involved in a semantic debate, to be perfectly honest, Mr. Neal. My view is this, as a parent. When my son was born 16 and a half years ago, my husband and I set up a college fund for him. Every month we have contributed to it. As a result, he is 16 and a half, he is going to be a junior next year, and the only thing that is going to limit his choice of college are his grades. Hopefully, these will not be too limiting. If we had waited until now to set up that college fund, obviously it would have been impossible.

Mr. NEAL. The other side is complaining about politics in this debate. The President traveled across the country saying there was a crisis on a program that would pay full benefits until the year 2042. Signed by his own trustees, and the other party argues that

this side is using politics in this debate? Lastly, because I know my time is running out, can you guarantee for us that on survivor benefits, that a family today, if we were to implement the President's private account proposal, would receive the same number of dollars on an annual basis that they currently receive?

Commissioner BARNHART. I don't think I'm in a position to make any guarantee of any kind about anyone's plan or proposal because there is so much to be worked out——

Mr. NEAL. I am delighted with your answer.

Commissioner BARNHART. In terms of a legislative proposal.

Mr. NEAL. Commissioner, I am delighted with your answer. You are not in a position to guarantee it. That is precisely the point of this debate that we have witnessed now for the last few months in Congress. Social Security does provide, as currently constructed, a guarantee. Thank you.

Commissioner BARNHART. If I could just add one point, Mr. Neal, and that is that it does provide a guarantee as long as we can afford to pay the benefits. That is the problem. That was the point I was making about looking ahead to the future, and when I said I really think everything we do and discuss needs to be measured against.

Mr. NEAL. My question was could you guarantee the same level of benefit, and you were unsure of that. I think the record should reflect that.

Commissioner BARNHART. Well, I was just saying——

Mr. NEAL. Is that fair?

Commissioner BARNHART. My point is that I don't think we have enough details about anything.

Mr. NEAL. Is that fair, Commissioner, that you aren't able to guarantee?

Commissioner BARNHART. I think I am unable to guarantee anything today, quite frankly, because we haven't seen details on a lot of things at this point.

Mr. NEAL. Thank you, Commissioner.

Chairman MCCRERY. Thank you, Mr. Neal. Mr. Brady?

Mr. BRADY. Thank you, Mr. Chairman. Commissioner, thanks for being here. By the way, tell your young son to hang in there. There were a few years that, looking back, apparently my philosophy was don't let the classroom get in the way of your education.

[Laughter.]

Mr. BRADY. In the end, sometimes, it all works out. This is an educational hearing, I think very important, a serious subject. We need serious solutions. Prefunding doesn't appear to be such a unique method of planning for the future. I would wager if we ask people in this room to raise their hands how many prefund their life insurance or their college fund or even their health care insurance, paying it through their premiums where the money is set aside and vested and there when you need them, I guess, virtually every hand in this room would go up. If we asked the Federal workers in this room how many are pre-funding an important part of their retirement through the Federal Employee Retirement System, my guess is nearly all of us would raise our hand. Prefunding is a responsible and proven way, done right, to plan for the future. I think it ought to be an important part of our discussion as we

look at serious solutions to preserving Social Security for every generation, once and for all.

While we are on the lines of education, I think there is an unfortunate attempt to scare our seniors in a number of areas, especially with disability and in the survivors area. I am not as close to the President as Mr. Levin, but have you seen any statement, have you seen any plan by this President that changes the disability program or the survivors' program?

Commissioner BARNHART. At this point, as I was saying to Mr. Neal earlier, I am not in a position to guarantee anything specific, except that I can say that from what I have seen and what I understand, it is the President's intent to preserve the disability and survivors programs. In fact, the comments that have been made most recently suggest that the disability benefit would not be affected and that the only issue really is what the ultimate plan will do in terms of how you transition from disability into the retirement benefit.

Mr. BRADY. Well, I have been watching the President's proposal very carefully. In his words, after my dad died, mom raised five of us by herself, survivors was an important part of our getting by and of our—for my brothers and sisters and I getting through into college. I am not interested in changing and affecting the survivors' benefits, and I have watched the President very carefully for any indication that way, and I have seen none. So, I think we probably ought to do a little less scaring our seniors, a little more time trying to figure out a serious solution.

Which sort of brings me to the final point. Disability and survivors are almost a third of Social Security today. A big part of the program. I think we can do better in both, frankly, in the way we administer them, and you have made proposals along that line. From an educational standpoint, in our townhall meetings and Social Security workshops back home, a lot of people aren't as knowledgeable because it is so confusing about who is eligible for disability, who is eligible for survivors, who is eligible for Supplemental Security Income (SSI). Can you just take a minute and sort of refresh our memories as we talk about one-third of our Social Security system?

Commissioner BARNHART. Yes. Well, in terms of disability you generally have to have worked 5 out of the last 10 years to be eligible for disability, and you have to be fully insured, meaning that you have paid into Social Security for as many as 10 years. In terms of the survivors program, it is widows or widowers and surviving children under the age of 18, or 19 and under and still in school.

Mr. BRADY. The eligibility for that? How long must a worker work before their spouses and children are eligible?

Commissioner BARNHART. The same period. They have to be fully insured, or for young survivor benefits, currently insured, meaning the worker must have one and a half years of work in the 3-year period before death.

Mr. BRADY. We hear this question a lot in our Social Security workshops. Can an illegal alien, can someone walking across the border, someone here granted under a temporary visa, are they eligible for any of the Social Security benefits immediately?

Commissioner BARNHART. Oh, absolutely not. One of the things about Social Security is that it is a program that I think is very reflective of American values. You work, you pay into the system, and you get out based on what you paid into the system. So, if you just walked across the border—in fact, I heard this question on a radio show I was doing recently. There is a lot of misinformation about that. It is absolutely not true. You cannot just walk in and get Social Security. You have to have paid into the system and meet the criteria to be able to be eligible for those benefits.

Mr. BRADY. Great. I know we have worked on this Subcommittee in the past and continue to do that, on finding ways to stop the number of fraudulent Social Security IDs, try to tighten up the system tremendously.

Commissioner BARNHART. Yes. We do quite a number of checks. In fact, I put in a number of extra measures for document verification since I have been Commissioner these past three and a half years, geared precisely at that, to make sure that people are not receiving Social Security under fraudulent——

Mr. BRADY. I think everyone would agree we could even do better. There are, I think, more actions we can take and put in place. I appreciate the efforts that have been made. Thank you, Mr. Chairman.

Chairman MCCRERY. Thank you, Mr. Brady.

Chairman MCCRERY. Commissioner Barnhart, thank you for your service and thank you very much for your testimony today.

Commissioner BARNHART. Thank you very much. Allow me to say again that I applaud the Chairman and the Committee for holding this hearing. I just have to say as Commissioner of Social Security with the responsibility for administering this program that touches so many lives every single month, some of our Nation's most vulnerable citizens, it is so important that we make the system sound for the future and that we make sure that our younger generation—my son and those even older and younger than he—will have the same kind of confidence in the system that we have all had and that our parents and our grandparents had. Thank you.

Chairman MCCRERY. Thank you. Our next witness is Barbara D. Bovbjerg, Director, Education, Workforce, and Income Security Issues, United States GAO. Ms. Bovbjerg?

STATEMENT OF BARBARA D. BOVBJERG, DIRECTOR, EDUCATION, WORKFORCE, AND INCOME SECURITY ISSUES, UNITED STATES GOVERNMENT ACCOUNTABILITY OFFICE

Chairman MCCRERY. Ms. Bovbjerg, I see you have someone with you. Would you like to introduce?

Ms. BOVBJERG. Yes, I would. This is Alicia Cackley, who is an assistant director with Education, Workforce, and Income Security, in my office. I have a prepared oral statement. Ms. Cackley is here to help me answer questions and protect me.

Chairman MCCRERY. Welcome, Ms. Cackley. Ms. Bovbjerg, your written testimony, of course, will be entered into the record in its entirety. We would ask you to summarize that written testimony in about 5 minutes, if you would. You may proceed.

Ms. BOVBJERG. Thank you, Mr. Chairman, Members of the Subcommittee. I really am pleased to be here today to discuss the Social Security program's protections for vulnerable populations at this, your first hearing of the year, and to release the GAO primer on Social Security reform, which is before you today. As you know, Social Security is one of our Nation's great success stories. Thanks in part to this program, most elderly Americans today can be financially independent. Yet the program is facing financial changes in the long term that require changes to restore solvency and stability. The booklet we are issuing today is designed to help policymakers and the public better understand the choices before them and supplement the list of options we gave this Committee last week. In recognition of the context in which these challenges will be addressed, today I will talk about three things: First, the provisions of Social Security most important to vulnerable populations; second, the ways in which the socioeconomic environment has changed since the program's inception; and finally, the implications of those changes for the program.

First, the protections. Several key pieces of the Social Security program assure that it protects the most vulnerable individuals. The benefit formula itself is one of the most important. The formula replaces a larger percentage of low-wage workers' pre-retirement income than it does higher-wage workers' income. This assures the overall progressivity of the program and offers a strong level of security for those workers with the least. The inclusion of disability insurance in Social Security provides protections for those who, although they once worked and contributed to the program, cannot work as a result of an impairment. In addition, spousal and survivor benefits assure that workers' families are protected, not only after the worker's retirement, but in the event of the worker's death or disability, and the policies of guaranteeing monthly benefits for life and indexing them to the cost of living are important protections against the erosion of real income. These provisions have been crucial to the income security of certain beneficiaries, such as older widows. Taken together, all of these provisions have assured that American workers and their families, including those at the most risk of poverty after retirement or disability, can remain financially independent.

As to some of the external changes that have occurred since Social Security's inception, one of the most important is increased life expectancy. Since the 1940s, life expectancy at age 65 has increased steadily for both men and women. Men reaching age 65 in the 1940s could expect, on average, to live to age 77; today such men look forward to reaching age 81, and women have fared even better—meaning that Americans generally are living longer in retirement. Other important changes have also taken place. Although Social Security was created in a society where households were generally a one-earner married couple with children, today it is increasingly likely that both partners work or the household has only one adult, or no children. These workers may be doing a different sort of work than in the past and may change jobs more frequently.

Their benefits have changed as well. Defined benefit pensions are becoming less common and less secure, and those workers who have pensions are increasingly bearing the risk of pension inad-

equacy. Unfortunately, one of the few things that have not changed is the proportion of workers who have an employer-provided pension. Despite our efforts to encourage better and more pension coverage, only about half of American workers have a pension plan.

Let me turn now to the implications of these changes. Increased time spent in retirement raises Social Security's costs. Helping create incentives for Americans to work past traditional retirement ages could offer older people a more secure income, while helping the economy and the Social Security program itself. Congress has taken an important step in repealing the earnings test passed for retirement age, but more attention is needed to this issue.

Another area to examine is spousal benefits. The one-earner-family model of the past is no longer reflective of today's families, and in fact, no single model is likely to suffice. Finally, it would be important to recognize that while Social Security was never intended to be the sole source of retirement income for most, its roles as a secure source of income is ever more important in light of today's changing pension environment. Actions to reform Social Security should recognize its continued, and perhaps growing, importance to overall retirement income. In conclusion, the Social Security program has made a tremendous difference to America. Before Social Security, being old often meant being poor. Today older Americans are more financially independent and live better lives, thanks to the secure retirement income this program provides.In addressing the program's long-term financial problems, Congress indeed faces difficult decisions. Policymakers will need to address the escalating costs not only of Social Security, but of Medicare and Medicaid, while recognizing that these programs all are crucial to retirement well-being, especially for vulnerable populations. Clearly, this will not be an easy task, but few tasks will be so important to so many. That concludes my statement, Mr. Chairman.

[The prepared statement of Ms. Bovbjerg follows:]

Statement of Barbara D. Bovbjerg, Director, Education, Workforce, and Income Security Issues; accompanied by Alicia P. Cackley, Assistant Director, Education, Workforce, and Income Security Issues, U.S. Government Accountability Office

Social Security

Societal Changes Add Challenges to Program Protections

Mr. Chairman and Members of the Committee:

I am pleased to be here today to discuss how the Social Security program protects vulnerable populations and how the program may need to evolve to meet their changing needs. Before Social Security was enacted in 1935, at least half of those 65 and older in the United States were financially dependent upon others, including family members and public assistance.[1] Today, the elderly's dependency on public assistance has dropped to a fraction of its Depression-era levels, and poverty rates among this group are now lower than for the population as a whole. At the same time, Social Security has become the single largest source of retirement income for Americans, supporting over 90 percent of those 65 and older. Moreover, it is the only source of income for approximately 22 percent of the elderly population. However, Social Security's long-term financing problems will require changes to restore fiscal stability to the program. The challenge for policymakers will be to make the necessary changes while retaining protections that are so important to millions of Americans.

Today, I would like to talk about the key provisions in the Social Security program that support vulnerable populations, the ways in which those populations and

[1] S. Rep. No. 74–628 at 4 (1935).

American society in general have changed over time, and the implications of those changes for the Social Security program. GAO has conducted several studies related to Social Security reform and its impact on vulnerable populations;[2] my statement is largely based on that work.

In summary, the Social Security program today continues to provide protection from poverty in old age just as it was designed to do 70 years ago. Social Security protects workers through a benefit formula that advantages low-wage workers, benefits for the disabled, spousal and survivor benefits, and a monthly annuity and yearly cost of living adjustment. At the same time, much in American society has changed greatly since the inception of the Social Security program. People are living longer, women's labor force participation has increased significantly and household composition has changed dramatically. In addition, labor force growth has slowed significantly, and the nature of work has changed in many ways, some of which affect workers' ability to save for retirement. These changes suggest that the Social Security system as it is currently designed may not be as effective as it could be in addressing the needs of our society. Some of the areas where changes in design could bring the program more in alignment with the current structures of work and families include encouraging older workers to remain in the labor force, addressing questions about the equity of spousal benefits, and redesigning the Disability Insurance program. At the same time, as policymakers consider changes that will restore financial solvency and modernize the program, it will be important for them to keep in mind Social Security's role in protecting vulnerable populations.

Background

Title II of the Social Security Act, as amended, establishes the Old-Age, Survivors, and Disability Insurance program, which is generally known as Social Security. The program provides cash benefits to retired and disabled workers and their dependents and survivors. The Congress designed Social Security benefits, at least implicitly, with a focus on replacing lost wages.[3] Because the program is financed on a modified pay-as-you-go basis, payroll tax contributions of those currently working are transferred to current beneficiaries. Current beneficiaries include insured workers who are eligible for retirement or who cannot work due to disability, these workers' dependents, and certain survivors of deceased insured workers. Workers become eligible when they have enough years of earnings covered under Social Security (i.e., earnings from which Social Security taxes are deducted); they and their employers pay payroll taxes on those covered earnings to finance benefits. In 2004, more than 156 million people had earnings covered by Social Security.

Social Security was originally an old-age retirement program. However, the Social Security amendments 1939 added two new categories of benefits: dependent benefits paid to the spouse and minor children of a retired worker, and survivor benefits paid to the family after the death of a covered worker. The amendments transformed Social Security from a retirement program for workers into a family based economic security program. The amount of Old-Age and Survivors Insurance (OASI) benefits paid in 2004 totaled $415 billion for about 40 million recipients.

Similarly, the Social Security Disability Insurance (DI) program was established in 1956 to provide monthly payments to eligible workers with disabilities who are under the normal retirement age, and to their dependents.[4] To be eligible for DI benefits as an adult, a person must have a certain number of recent quarters of covered earnings[5] and must be unable to perform any substantial gainful activity by reason of a medically determinable physical or mental impairment. The impairment must be expected to result in death or last or be expected to last for a continuous period of at least 12 months.[6] As with retired worker benefits, disability benefits are

[2] See Social Security and Minorities: Earnings, Disability Incidence, and Mortality Are Key Factors That Influence Taxes Paid and Benefits Received, GAO–03–387 (Washington, DC: April 23, 2003); Social Security: Program's Role in Helping Ensure Income Adequacy, GAO–02–62 (Washington, DC: Nov. 30, 2001); Social Security Reform: Potential Effects on SSA's Disability Programs and Beneficiaries, GAO–01–35 (Washington, DC: Jan. 24, 2001); Social Security Reform: Implications of Raising the Retirement Age, GAO/HEHS–99–112 (Washington, DC: Aug. 27, 1999); Social Security Reform: Implications for Women's Retirement Income, GAO/HEHS–98–42, (Washington, DC: Dec. 31, 1997).

[3] The original formula, as well as subsequent modifications, computed benefits as a percentage of wages covered under the program in a way that favors low-wage earners.

[4] In 1956, the Social Security Act was amended to provide benefits to disabled workers aged 50–64 and disabled adult children. Over the next 4 years, Congress broadened the scope of the program, permitting disabled workers under age 50 and their dependents to qualify for benefits, and eventually disabled workers at any age could qualify.

[5] The eligibility requirements for DI are different from the requirements for OASI.

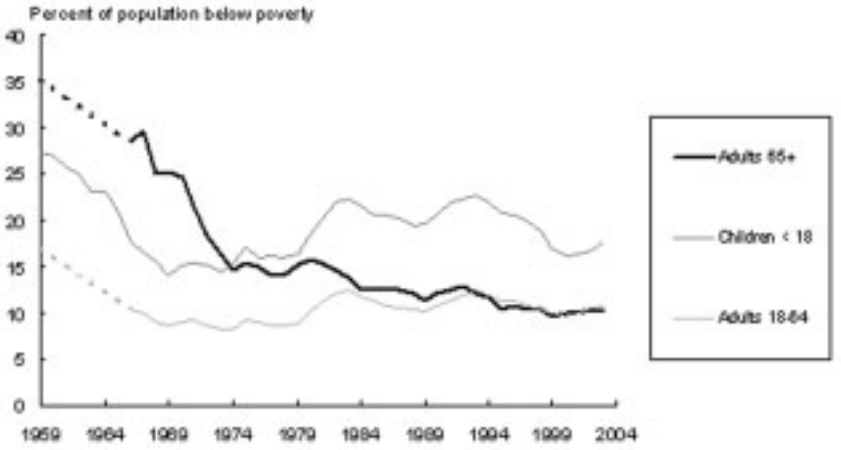
[6] Work activity is generally considered substantial and gainful if the person's earnings exceed a particular level established by statute and regulations.

funded by payroll taxes paid by covered employees and their employers. In calendar year 2004, about 8 million individuals received approximately $78 billion in DI benefits.[7]

Outside Social Security, but integrated with the program, other legislation has also addressed income adequacy in various ways. In 1965, Medicare and Medicaid were created to alleviate the historically increasing strain that health care placed on incomes. In 1972, Title XVI's Supplemental Security Income (SSI) replaced Title I's Old-Age Assistance. This means tested program provides cash to meet basic needs for food, clothing, and shelter. It is the nation's largest cash assistance program for the poor, and although it is administered by the Social Security Administration, it is funded by general tax revenues and not the Social Security trust fund.[8]

Over the years Social Security has contributed to reducing poverty among the elderly. (See fig. 1.) Since 1959, poverty rates for the elderly have dropped by more than two-thirds, from 35 percent to about 10 percent in 2003. While poverty rates for the elderly in 1959 were higher than for children or for working-age adults (aged 18 to 64), in 2003 they were lower than for either group. Factors other than Social Security, for example, employer-provided pensions, have also contributed to lower poverty for the elderly. Still, for about half of today's elderly, their incomes excluding Social Security benefits are below the poverty threshold, the level of income needed to maintain a minimal standard of living. Nearly two-thirds of the elderly get at least half of their income from Social Security.

Figure 1: Poverty Rates for Elderly Have Declined Faster than for Other Groups



Source: U.S. Bureau of the Census
Notes: Data for years indicated by dashed lines were not available but are available for 1959.

Currently Social Security faces a long-term structural financing shortfall, largely because people are living longer and having fewer children. Social Security's benefit costs will soon start to grow rapidly. According to the 2005 intermediate—or best-estimate—assumptions of the Social Security trustees, Social Security's annual benefit payments will exceed annual revenues beginning in 2017, and it will be necessary to draw on trust fund reserves to pay full benefits. And, in 2041 the trust funds will be depleted. At that time, annual income will only be sufficient to pay about 74 percent of promised benefits. As a result, some combination of benefit and/

[7] These numbers do not include adult disabled children who are dependents of deceased or retired workers, disabled widows and widowers, or disabled parents, who receive their disability benefits from the OASI program. About $6 billion were paid out of the OASI trust fund to these beneficiaries.

[8] States have the option of supplementing their residents' SSI payments. This state-supplemented SSI payment may be administered by the state, or states may choose to have the additional payments administered by the federal government.

or revenue changes will be needed to restore the long-term solvency and sustainability of the program.

Key Provisions of the Social Security Program Protect the Most Vulnerable Populations

From its inception, Social Security was intended to help reduce the extent of dependency on public assistance programs. Over time, that objective has come to be stated more broadly as helping ensure adequate incomes. Several key provisions of the program have helped to protect the most vulnerable individuals: the progressive benefit formula that advantages low-wage workers, disability insurance benefits, survivor and dependent benefits, and the fact that the benefit comes in the form of an annuity, with an annual cost-of-living adjustment (COLA).

Progressive Benefit Formula

Social Security's benefit formula is designed to be progressive; that is, it provides disproportionately larger benefits, as a percentage of earnings, to low-wage earners than to high-wage earners.[9] By replacing a larger percentage of low-wage workers' pre-retirement income in this way, the Social Security benefit helps ensure adequate retirement incomes for these workers. The progressive nature of the Social Security system remains even after taking account of the fact that contributions to the system come in the form of a regressive payroll tax.

Disability Insurance and Supplemental Security Income Benefits

From its origin in 1956, the purpose of the DI program has been to provide compensation for the reduced earnings of individuals who, having worked long enough and recently enough to become insured, have lost their ability to work.[10] Payroll deductions paid into a trust fund by employers and workers fund DI benefits. Thus, DI, while it has important protections for vulnerable populations, is designed to provide insurance for all insured workers. The purpose of the SSI program, on the other hand, is to provide cash assistance to those who are age 65 and older, blind, or disabled and who have limited income and resources. It is a means tested program that serves those not insured by Social Security or those whose Social Security benefits fall below SSI's means test threshold.

Spousal and Survivors' Benefits

Workers' earnings may generate Social Security benefits for their spouses and dependents as well as themselves. For example, spouses of retired or disabled workers may receive benefits based on a percentage of the workers' benefits. Additionally, after the worker has died, their eligible dependents receive survivor benefits.[11] Because workers do not make any additional contributions to receive these auxiliary benefits, workers with families receive a higher implicit rate of return than workers without families. Benefits are paid to family members of workers under certain circumstances. Spouses and divorced spouses of eligible workers may also be eligible at age 62 but can be eligible at younger ages if they are disabled, widowed, or caring for eligible children. An eligible worker's children under 18 are eligible for survivors' benefits, and adult children are eligible if they became disabled before age 22. Dependent parents and grandchildren of eligible workers are also eligible for survivors' benefits under certain circumstances.

Annuitization and Cost of Living Adjustment

Social Security benefits are paid out in the form of an annuity. Annuities are monthly payments for a specific period time, for example, the lifetime of a retired worker.[12] Benefits are also increased each year to keep pace with increases in the cost-of-living (inflation). The COLA is based on the Consumer Price Index. This automatic adjustment was not always a feature of the program. It was introduced in the 1970s, as part of a broader set of reforms, in order to ensure that benefits did not erode over time.

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[9] Social Security: Distribution of Benefits and Taxes Relative to Earnings Level, GAO–04–747 (Washington, D.C.: Jun. 15, 2004).

[10] The DI program was established under title II of the Social Security Act.

[11] Some workers qualify for Social Security benefits from both their own work and their spouses'. Such workers are called dually entitled spouses. Such workers do not receive both the benefits earned as a worker and the full spousal benefit; rather the worker receives the higher amount of the two.

[12] Social Security benefits are not paid for the lifetime of all beneficiaries depending on various eligibility requirements, for example, for surviving parents of young children.

Changes in the Workforce and the Nature of Work

Much in American society has changed greatly since the inception of the Social Security program. People are living longer, women's labor force participation has increased significantly and household composition has changed dramatically. In addition labor force growth has slowed significantly, and the nature of work and workers' benefits has changed in many ways, some of which affect workers' ability to save for retirement.

Life expectancy

Life expectancy has increased continually since the 1930s, and further increases are expected. The average life expectancy for men who reach age 65 has increased from 12 years in the 1940s to 16 years in 2005, and is projected to increase to 17 years by 2020. Women have experienced a similar rise—from 14 years in the 1940s to over 19 years in 2005. Life expectancy for women who reach age 65 is projected to be 20 years by 2020. (See fig. 2.)

Figure 2: Life Expectancy at Age 65 Has Increased

Note: Life expectancy numbers are based on period tables.

The aged population is growing dramatically, as a result of increased life expectancy and the aging of the baby boom generation. For example, individuals aged 65 and over are currently 12 percent of the population. In 30 years, they will be more than 20 percent of the population.

Changing Composition of Households and Increased Labor Force Participation of Women

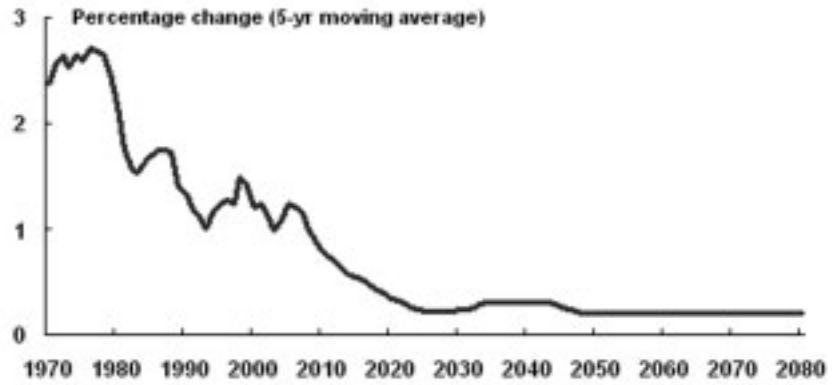
Social Security was designed around a working father, a stay-at-home mother, and children. Society has moved away from this model. There are many more single parent and two-earner households than in the past. Women's labor force participation rates are now at 59 percent—a substantial increase from their participation rates when the program was introduced.[13] At the same time, women have different work patterns from men. Women are more likely to work part-time and work intermittently as they may take time out of the labor force to raise children or care for elderly parents.

[13] In 1961, women's labor force participation rate was 38 percent, compared to 83 percent for men.

Slow Labor Force Growth

Increasing life expectancy, coupled with lower fertility rates, means that labor force growth will begin to slow by 2010. By 2025 it is expected to be less than a fifth of what it is today. (See fig. 3.) Relatively fewer U.S. workers will be available to produce the goods and services that all will consume. Without a major increase in productivity or immigration, low labor force growth will lead to slower growth in the economy and to slower growth of federal revenues. This in turn will only increase the overall pressure on the federal budget.

Figure 3: Labor Force Growth Is Expected to Slow Significantly



Source: GAO analysis of data from the Office of the Chief Actuary, SSA.
Note: Percentage change is calculated as a centered 5-yr moving average of projections based on the intermediate assumptions of the 2005 trustees Reports.

This slowing labor force growth, as well as the increases in life expectancy, has important implications for the solvency of the Social Security system. Fewer workers will be contributing to Social Security for each aged, disabled, dependent, or surviving beneficiary.

Change in the Nature of Work

In recent decades the national economy has moved away from manufacturing-based jobs to service—and knowledge-based employment. Another change in the nature of work is employers' increasing use of temporary and contingent workers. Contingent workers are less likely than the rest of the workforce to receive health insurance and pension benefits through their employers. Many of these workers either are not offered benefits by their employers or do not qualify for benefits because they do not work enough hours or have not worked for their employers long enough. Furthermore, when their employers offer health insurance and pension plans, many contingent workers do not participate because of the cost of the plans. The mobility of these workers also has an impact on their ability to save for retirement, since they may not stay with one employer long enough to qualify for a pension.

Re-structuring of Employer-Sponsored Pension Plans

Currently, only about 50 percent of workers have an employer-sponsored pension plan to supplement their Social Security benefit. For those workers who do have pensions, however, the structure of those plans has changed over time. More and more employers are switching from defined benefit (DB) to defined contribution (DC) plans. In doing so they are shifting an increasing share of the responsibility for providing for one's retirement from the employer to the employee. DC plans have lower participation rates than DB plans because many DC plans require the employee to opt for coverage, whereas most DB plans enroll participants automatically. Additionally, increasing costs of other benefits, such as health care, are making employers less willing or able to increase other forms of compensation packages, including pensions. As a result, employer-sponsored pensions may provide workers a smaller share of retirement income than they have in the past.

Changing Needs of Society Has Implications for Social Security

Regardless of all these changes, and in some cases, because of them, many workers still rely heavily on Social Security for their retirement. At the same time, changes in-household structure, labor force participation, and life expectancy all suggest that the system as it is currently designed is not as effective as it could be in addressing the needs of our society. There are several areas where changes in design could bring the program more in alignment with the current structures of work and family.

Working Longer

As a consequence of increases in life expectancy, individuals are generally spending more years in retirement. The average male worker spent 18 years in retirement in 2003, up from less than 12 years in 1950. Encouraging older workers to remain in the labor force could increase revenues to Social Security and significantly improve individuals' standard of living in retirement. Although some workers may face significant health problems, there is evidence that the health of older persons generally is improving. Research has shown that the majority of workers aged 62 to 67 do not appear to have health limitations that would prevent them from extending their careers, although some could face severe challenges in attempting to remain in the workforce.[14] In general, however, today's older population may have an increased capacity to work compared with that of previous generations.[15] Congress has already provided an incentive for older workers to continue working by repealing the earnings test for individuals at or above the full retirement age. This change allows older workers to continue working without any reduction in their Social Security benefits. It will be important to have institutions in place that can further facilitate the continued employment of older workers.

Spousal Benefits

As women's participation in the labor force has increased, more of them may be entitled to Social Security benefits based on their own earnings records rather than their spouses'. As a result, there will probably be relatively more two-earner couples and relatively fewer one-earner couples in the system. Under the current program, non-working spouses can receive a spousal benefit even though they had no covered earnings of their own. Spouses can be entitled to a benefit based on their own earnings record that is equal to or less than the benefit they are entitled to on their spouses' earnings records. The household benefit in such cases is no greater than if such spouses had never worked at all. Similarly, when a woman becomes widowed, her total household income can potentially be cut much more deeply if she was receiving a retirement benefit based on her own earnings while her spouse was alive, compared to a widow whose benefit was based only on her spouse's earnings. Thus two-earner couples may question whether they are receiving an adequate return on their contributions. In considering alternatives to the one-earner model on which the program was created, however, a two-earner model is not necessarily the answer. In a country as heterogeneous as America, probably no one model is optimal. The increase in women in the workforce and two-earner couples raises questions about the equity for working women of the current design of the spousal benefit.

Federal Disability Programs

The DI program is based on the concept of assisting individuals whose impairments have adversely affected their work capabilities. The program provides compensation for reduced earnings due to a disability and attempts to facilitate the efforts of individuals with disabilities to return to work. However, GAO's work on federal disability programs,[16] including DI, has found that these programs are neither well aligned with 21st century realities nor are they positioned to provide meaningful and timely support for Americans with disabilities. Our work suggests that these programs remain grounded in outmoded concepts of disability, and are not updated to reflect scientific, medical, technological and labor market improvements. Moreover, the enactment of various DI work incentives that are intended to encourage beneficiaries to work—and, potentially, to leave the disability rolls—has had little discernible impact on beneficiaries' success in returning to the workforce. Policymakers will need to consider how these realities fit into the evolving role of the DI

[14] GAO/HEHS–99–112.

[15] It should be noted, however, that life expectancy is related to income, and low-income workers tend to have lower life expectancies and poorer health outcomes.

[16] High-Risk Series: An Update, GAO–05–207 (Washington, DC: Jan. 2005).

program, particularly as the baby boom generation reaches their disability-prone years.[17]

Concluding Observations

Before the advent of Social Security, being old often meant being poor. Today, older Americans' dependency on public assistance is dramatically lower than Depression-era levels, and poverty rates among the elderly are now lower than for the population as a whole. At the same time, Social Security has become the single largest source of income for the elderly, providing retirement income to more than 90 percent of persons aged 65 and older.

Given its long-term solvency problems, however, there are difficult decisions to be made about Social Security, largely because the program is so important to so many people. The challenges posed by the growth in Social Security spending become even more significant in combination with the more rapid growth expected in Medicare and Medicaid spending and the need for reform of the private pension system. Medicare, in particular, presents a much greater, and more complex fiscal challenge than does Social Security. Policymakers will need to address the escalating costs of both Social Security and Medicare while recognizing that these programs are crucial to retirement wellbeing, especially for vulnerable populations.

There are tough decisions to be made, and action is needed sooner rather than later. Most importantly, however, the solvency and sustainability of Social Security should be addressed within the context of the program's role of protecting vulnerable populations, while at the same time considering how carrying out that role may need to change to better address changing societal needs. We at GAO look forward to continuing to work with this Committee and the Congress in addressing this and other important issues facing our nation.

Mr. Chairman and Members of the Subcommittee, this concludes my prepared statement. I'd be happy to answer any questions you may have.

GAO Contacts and Staff Acknowledgments

For further information regarding this testimony, please contact Alicia Puente Cackley, Assistant Director, on (202) 512–7215. Gretta L. Goodwin also made key contributions to this testimony.

Chairman MCCRERY. Thank you, Ms. Bovbjerg. The U.S. Comptroller General, David Walker, testified before the Committee on Ways and Means earlier this year, and he said that Social Security has a large gap between promised and funded benefits. He said, "This gap is growing as time passes. Given this and other major fiscal challenges, including expected growth in Federal health spending, it would be prudent to act sooner rather than later to reform the Social Security program."

While we are using household analogies, it is kind of like your discovering a leak in your roof. It is not really causing much damage; in fact, you could put a pot under the leak to catch the water for now. If you don't address the problem, it gets bigger, and pretty soon you have a big hole in your roof, and there is a lot of damage to your house. Do you agree with Comptroller General David Walker's assessment that the sooner we act to reform the system, the better?

Ms. BOVBJERG. Absolutely. The information I think that he had provided at that hearing was that acting now and solving the 75-year problem would require a 13-percent-cut in the benefits side if you did it all on the benefits side, or a 15-percent-increase in revenue if you did it all on the revenue side. If you wait, those amounts get much larger, and they are still only going to get you out to 2079–2080 now. Another reason to act sooner is that we have all talked about the importance of giving people time to plan,

[17] The average age of disabled workers is approximately 50.

and protecting retirees and near-retirees. Well, the baby boomers are rapidly becoming near-retirees, and soon will be retirees. If the baby boom generation is to participate in any solution to the Social Security fiscal imbalance, now would be the time.

Chairman MCCRERY. If we don't take action and we see those kinds of reductions in benefits, how does that affect the most vulnerable populations served by Social Security?

Ms. BOVBJERG. Well, like so many things in Social Security, it would depend on how it was done. I believe that when Commissioner Barnhart was talking about trust fund exhaustion as a possible scenario, I think that would be hard on everyone who was a beneficiary. Those cuts could be across the board. It is not clear what any of that——

Chairman MCCRERY. If they were across the board, wouldn't vulnerable populations be affected more harshly than non-vulnerable populations?

Ms. BOVBJERG. Yes, because they are more dependent on Social Security.

Chairman MCCRERY. Fine. You highlighted in your testimony Social Security's importance in helping to reduce poverty among seniors. What would you suggest as options to enhance Social Security's role in providing a basic floor of protection for low-income seniors? For example, would maintaining or increasing the progressivity of the current benefit formula, or enhancing the minimum benefit offered under Social Security help prevent poverty among seniors even more than we are today?

Ms. BOVBJERG. It could. You would have to look at the entire package of changes and see how they interacted to see how that might work. For example, several years ago we reported on the progressivity in a couple of different types of Social Security reform proposals, and we noticed that the Model Two proposal was somewhat more progressive than the current system. However, that is not to say that it was more adequate. Which is to say that, while the benefits were more progressive, they were lower than under the scheduled benefits of today.

Chairman MCCRERY. Right. Right.

Ms. BOVBJERG. So, you would have to balance those.

Chairman MCCRERY. Sure. The progressivity, though, of the system benefits, for example, lower income workers who, without that progressivity, could very well be below the poverty line. But, because of the progressivity, because Social Security replaces a greater percentage of their wages than higher-income workers, they are protected, in many cases, from poverty. Isn't that correct?

Ms. BOVBJERG. The could be, but it would depend on what level of benefits they received as well as the degree of progressivity.

Chairman MCCRERY. Sure. Sure. No, I understand what you are saying. In the current system, the progressivity of the system ensures that the vast majority of seniors are kept out of poverty, doesn't it?

Ms. BOVBJERG. That is true. I noticed the Commissioner was talking about the SSI Program as well, which we mention in our testimony. I don't mean to be confusing. That is not part of Title Two of the Social Security Act (P.L. 74–271).

Chairman MCCRERY. No, no, I understand what you are saying.

Ms. BOVBJERG. It is an important backstop.

Chairman MCCRERY. So, do you have any suggestions about how we could improve Social Security's function or about keeping seniors out of poverty?

Ms. BOVBJERG. I think it would be important to think of Social Security in a broader retirement income environment. I know I work on retirement issues, Social Security pensions, but I know that it is really important to interact more with people who are thinking about health care, about Medicare, about Medicaid, about retiree health insurance. It is also important to consider what is happening in the pension world While it sounds like maybe I am saying you have to do everything all at once as if it is not already a really hard issue, I just think it is important to keep what is going on in the environment around Social Security in mind as you are making changes.

Chairman MCCRERY. I will suggest that to Chairman Thomas. Since you mentioned it, would you explain the differences between SSI, and the Social Security program?

Ms. BOVBJERG. The SSI Program is called supplemental because it really is the backstop to Social Security. The SSI Program covers aged and disabled people, and their benefits are means tested. So, anyone who either does not qualify for Social Security because they haven't earned enough credits to be fully insured, or people who are receiving a Social Security benefit—and there are at least two million of them who receive the Social Security benefit, and also receive SSI to top it off, essentially. It is funded by the General Fund. It is not funded by the Social Security Trust Fund.

Chairman MCCRERY. What qualifies them for SSI?

Ms. BOVBJERG. Well, if they are below retirement age, they must be disabled and they go through the same disability assessment process that the Disability Insurance (DI) applicants do. They also must have income below a certain level. They have to report living arrangements and things like that.

Chairman MCCRERY. There are two tests for people under 65. They have to be disabled, and they have to be under a certain income level. If they don't meet both of those tests, then they don't get any benefit at all, do they?

Ms. BOVBJERG. That is correct.

Chairman MCCRERY. That is, under SSI.

Ms. BOVBJERG. That is correct.

Chairman MCCRERY. Then for the aged, those who are over 65, they must only meet the income test to get SSI?

Ms. BOVBJERG. Yes, and the age test.

Chairman MCCRERY. Right. If they are over the age—if they pass the age test, then they have to also pass the income test to be eligible for any benefit under SSI.

Ms. BOVBJERG. That is correct.

Chairman MCCRERY. Have you thought about any options for improving the coordination between Social Security and SSI?

Ms. BOVBJERG. I think it is really important, as we consider trust fund solvency and the program, to remember that SSI is there—and I know that a number of proposals have talked about minimum benefits—and just to think about these things together. I know that administratively the SSA has taken some steps to

make sure that these programs are better coordinated. I think in a policy sense we don't always think about them together. Certainly, in the Social Security reform debate we have not.

Chairman MCCRERY. All right, thank you. Mr. Levin?

Mr. LEVIN. Thank you, Mr. Chairman. Thank you for your testimony. I don't think you have anything to worry about. Indeed, we appreciate your objectivity and your sensitivity in answering these questions. There have been references by us to houses and leaks and roofs, and analogies just carry one so far. Our position is we want to repair leaks—and I don't ask that you comment on this—we just don't want over time the house to be burned down.

That becomes all the more important when one looks at your document, your testimony, on page 10. You, in response to questions, I think you have been careful to say one has to look at the whole picture. I think that is very true. One piece of the whole picture that we have to look at is referenced on page 10, and I just want to read it, though it is going to be in the record. I don't think you referred to it in your summation because you had to be brief.

More and more employers are switching from defined benefit (DB) to defined contribution plans (DC). In doing so, they are shifting an increasing share of the responsibility for providing for one's retirement from the employer to the employee. The DC plans have lower participation rates than DB plans because many defined contribution plans require the employee to opt for coverage, whereas most DB plans enroll participants automatically. Then at the end, "As a result, employer sponsored pensions may provide workers a smaller share of retirement income than they have in the past."

I just wanted to say that it is really important that everybody realize what is being proposed here by the President. That is a shift, at least for the vast majority of people, from a DB to a DC plan. I think that is one reason he is having so much difficulty with his idea. When the public sees more and more defined benefit plans being torn apart and more of a shift of the retirement responsibility, as you say here, for providing one's retirement from the employer to the employee, what is being proposed here—and we need to have honest discussion of it—is a more major shift to the employee.

That is also at a time when people realize more increasingly, the risk of investments in stocks. They understand that there are huge differences, there will be, as to how much people would receive when they retire, depending on the nature of the stock market at that time. One only has to look at last year or the year before to see these huge swings. You can try to diminish the impact by saying you have to invest in what the government would prescribe—which also turns off younger people, who thought this was going to be something of their own.

Last, I just want to say when we talk about high- and low-wage-earners, I think we better be cautious. Under what the President proposed, if one in today's dollars had an average income of over $20,000, one would be caught by the shift from wage to price indexing. As I go out, the vast majority of people, whose average income is anything above $20,000, unless it is $120,000 don't think that they are high-wage, high-income earners. So, I think your effort to

round out the picture has been very helpful to us. I hope that people will understand where we are coming from.

By the way, to my friend from Missouri, I will show you this AP story. The headline is, "Official says Bush Social Security plan would cut some survivor benefits." That is Mr. Hubbard. He also said it would not reflect on disability. Then I quoted the spokesperson for the President, and I do urge you, as you look at the interplay between disability, survivor, and retirement benefits, that there be an understanding that if there is going to be an insulation of disability benefits, it would have an impact on everybody else's benefits, and there would have to be attention paid to what happens when people who were receiving disability went into retirement. If the retirement benefit dropped under these proposed cuts, then there would be a cut in the disability benefit.

Also, I would urge that you look at the Commission plans and look at the statements of the President regarding them. We aren't making this up. We need to have—and I think the Chairman wants to; we once had a private discussion about this—have a thorough, honest discussion about what is proposed as a major shift, as you say, in responsibility. Here it wouldn't be from the employer to the employee, but it would be from a Social Security system that guaranteed benefits, to the employee. Thank you, Mr. Chairman. Thank you for giving me an extra minute.

Chairman MCCRERY. Yes, sir, Mr. Levin. You make a good point. Those are questions that this Subcommittee needs to examine. That is why we are here today talking about these things. As far as I can tell, most of the Members of this Committee on both sides want to make sure that we protect vulnerable populations being served by Social Security. So, that is a good point. Mr. Shaw?

Mr. SHAW. Thank you, Mr. Chairman. I would like to—I can't speak to all of the Social Security plans. As I understand it, some of them are a little murky as far as the drafting is concerned. I can speak to two of them that I am very familiar with—of course, my own, which is the Social Security Guarantee Plan, which is H.R. 750, which in no way affects survivor benefits and no way affect disability benefits. I can also speak to Mr. Ryan's plan. I think these are the two leading plans that are being considered at this particular point, and his plan does not in any way affect survivor benefits or disability. I am proud to co-sponsor this with Mr. Lewis and several other people on our Committee.

The fact that you go to individual or personal accounts doesn't mean that you can't guarantee benefits. If you look at 750, you will see that we do guarantee benefits. We do not, as a matter of fact in H.R. 750, we do not touch anything in the existing Social Security plan. What we do is simply add to it. I think that perhaps some of my colleagues on the Democrat side should go back and visit that plan and, if you don't want to become supporters of it, that you might want to take things from it that you might particularly like.

There is no question but that the markets will fluctuate. This is why we decided to put the guarantee in there. You can do no less than you would under the existing system. We don't even change the cost of living index. We leave that totally alone, everything totally alone. So, I think that that is important, that we understand

that there are ways to pre-fund, if you may—I mention Mr. Ryan's name and he walks in.

Mr. RYAN. I was here.

Mr. SHAW. I was defending you. You were being attacked unmercifully by Mr. Levin.

[Laughter.]

Mr. SHAW. Ms. Bovbjerg, I do have a question for you. The General Accounting Office has published many reports about issues relating to pensions. So, as we think about strengthening Social Security, what do we need to keep in mind in terms of how changes to Social Security may affect pensions and other retirement savings?

Ms. BOVBJERG. Well, we did a report, I believe, for you, Mr. Shaw, when you were Chairman of this Subcommittee on pensions and Social Security reform. In that report, we talked about the linkages between certain employer-sponsored pensions and Social Security and how changes not limited to restructuring, like individual accounts, but other kinds of changes could affect employer-sponsored pensions and that there might be changes and additional costs for employers and things of that nature.

I think that the concerns that we have raised in the testimony are really more of the retirement income concerns and thinking that Social Security is becoming all the more important as the security of certain pensions, such as the participants in United Airlines's pension, is eroding; that it is important to think about these things together—to think about what kinds of retirement income people might have later. That is part of why we think earnings is so important for people who can work to continue to work longer.

I think that in thinking about these things together, it is important to think about defined benefit, defined contribution, who contributes, who bears risk, how people accumulate retirement funds, how these retirement funds are paid out; that we are talking about people who are going to be getting things, we hope, from a variety of different sources, and it would be important in considering that to look at managing risk, managing the kinds of contributions you might expect from people, from their employers; that we not do something that has the same effect in Social Security, in pensions, in health on the same people that might make something much more difficult for them to—it might make it more expensive for them, it might make their retirement income less, it might make it more risky by making it less hedged. I just think that there are an abundant number of ways to do these things, and it is really important to look at them together and, as you say, to look at these in comprehensive packages, not just look at individual features.

Mr. SHAW. Thank you. Thank you, Mr. Chairman.

Chairman MCCRERY. Mr. Pomeroy has graciously assented to my request to have Mr. Hulshof go next. Mr. Hulshof, you may inquire.

Mr. HULSHOF. I appreciate that, due to a previous commitment. I do welcome, as the gentleman from Michigan talked about having an honest discussion. I truly do. I think this is the Subcommittee where it needs to begin.

I note, for instance, a couple of weeks ago when President Bush talked about a progressive benefit formula that the loyal opposition, if you will, decried that idea. In fact, I even heard the word—I am thinking maybe it was in the full Committee, the idea that somehow this was creating a means testing or a means test. Yet, as you point out in your testimony, Ms. Bovbjerg, on page five, under current law Social Security's benefit formula is designed to be progressive; that is, it provides disproportionately larger benefits, as a percentage of earnings, to low-wage earners than to high-wage earners. So, certainly as the President's idea may be to accelerate that or to amplify that, I think that is a legitimate point for us to have discussion.

I have been perusing as you have been talking. This was today that you put this together? My colleague from Ohio, who I used to serve with on the Committee on Official Standards of Conduct, I think I can hawk this for you as this is not a private entity. If folks out in America wish to get this, this is a really good, by the way, compendium or summary of answers to key questions in a nonpartisan way. How can an average citizen across the country get this, Ms. Bovbjerg?

Ms. BOVBJERG. They can ask GAO to send them a hard copy, or they can go on our Web site, www.gao.gov, and it is right up there.

Mr. HULSHOF. There you go. Commercial message.

Ms. BOVBJERG. Thank you for the opportunity.

Mr. HULSHOF. You are welcome. Let me go to that because I know—and I apologize for not getting to remain for the entirety of the next panel, but I know that there will be some ideas, for instance. One, in fact, our colleague from Florida who talked about raising the cap on taxable earnings. Either you, Ms. Bovbjerg, or you Ms. Cackley, on page 42 you reference this, again, as questions that are being asked.

Mr. SHAW. If the gentleman would yield. If you would make it clear that it is not this gentleman——

Mr. HULSHOF. It is not this gentleman from Florida, but his colleague Mr. Wexler from Florida. Right now, earnings above $90,000 are not subject to payroll taxes. Again, I am paraphrasing what is included in this booklet. If the cap was raised and the benefit formula remained the same, workers with earnings above the old cap would ultimately receive somewhat higher benefits as well as pay more taxes.

In fact, let me just—in the interests of time, a quick hypothetical, at least according to the National Academy of Social Insurance, says that if someone pays taxes on a lifetime earning of a million bucks, if somebody's a millionaire, they make an annual salary of a million dollars, at least according to the National Academy of Social Insurance, under the current structure that individual at retirement would receive a monthly benefit of about $13,500 a month. That is $162,000 a year.

The point of me mentioning that—do you quarrel with the numbers, Ms. Cackley? You are on the back of the envelope. You are doing some quick figuring. The point is that, at least under the current system, and as Commissioner Barnhart talked about, and I paraphrase what she said at the end of her testimony: The idea of

Social Security when it was created, if you work hard, you play by the rules, you pay into the system, you get out of the system. At least, even with this progressive benefit formula, you get out of the system at least as you pay into the system. So, my concern is, or question is, perhaps reserved for the next panel, is that if you simply raise the payroll tax earnings cap, take it off entirely, the issue of solvency isn't fully addressed because we continue then to give benefits, or that individual will get benefits out of the system according to what they are paying in.

Is that——

Ms. BOVBJERG. That is correct. Their returns would be substantially lower because the progressive benefit formula than the people at the lower end of the distribution. But, yes, they would get paid benefits.

Mr. HULSHOF. Based on that caveat, and I guess, then, I would say, again, as, again, one of those options on the table, and I certainly wish to look at Mr. Wexler from Florida's proposal in more detail, Mr. Shaw, but perhaps, I guess, the suggestion is raising the cap and then cutting benefits or restricting the amount of benefits that that high-income wager earner could receive. Again, if we go back to the idea of the purpose of paying into the system, work hard, play by the rules, and you get out of the system, and not wanting it to turn into any sort of a, in my term, welfare system.

As a final point, Mr. Chairman, I would just say, as we had this honest discussion, I will quote a former president, who said this about Social Security and the challenges that we have. This was a speech given in 1997. "Our children deserve what our conscience demands. God willing, we will disappoint neither." The author of that quote, former President Gerald Ford, a Republican. Thank you, Mr. Chairman.

Chairman MCCRERY. Thank you, Mr. Hulshof. Mr. Pomeroy?

Mr. POMEROY. Thank you, Mr. Chairman. I am happy to cooperate with anything you may request, but especially to afford the questioning of my good friend from Missouri, Mr. Hulshof. It strikes some of us that when you talk about benefit reductions for those making more than $20,000 a year, it is not all that progressive. Not all that smart, either. I want to introduce for the record the Business Week, not known to be a particularly liberal publication. They have a cover story in a recent edition, "I Want My Safety Net." It is an excellent essay on the whole Social Security issue. I want to quote from it and ask your reaction, Ms. Bov—Ms. GAO.

[Laughter.]

Mr. POMEROY. "Big swings in family income, according to studies by Yale University political scientist Jacob Hacker, have increased markedly over the past two decades as the finances of two-earner households have been stretched thin. That has made families, especially those with unskilled workers, more vulnerable to catastrophic jolt, such as job loss or serious illness. The financial pressure has become much more acute because of another squeeze occurring in the private sector. Corporations vying to compete globally have steadily shifted costs and responsibility for pensions and health care to their employees as part of the restructuring wave that began in the seventies."

I would ask you—and it really relates much to your testimony—it seems like workers carry more risk today relative to their retirement income security than perhaps they did some years ago.

Ms. BOVBJERG. They pretty clearly do, as there has been a shift, as we have discussed, from DB to DC pension plans. The investment risk is on the employee. Some of the risks are self-induced. Employees will take money out of their 401(k)s for other purposes, non-retirement purposes, and then they have less when they go to——

Mr. POMEROY. Absolutely. There are all kinds of risks with DC plans that were not present in the old DB pension. Do they save enough? The Business Week article says 26 percent don't even participate on average, so, some don't even participate. Of those who do, there is market risk, market volatility. I was very surprised to hear my friend and colleague—and I know he is a biblical scholar—from Kentucky refer to the stock market as the solid rock. I think many who have been through this correction we saw at the turn of the decade wouldn't see the stock markets as solid rock to build your retirement foundation on at all. So, you have income and investment volatility as well. I would ask you, based on your general knowledge of investing, is it a common investing strategy to augment risk in an investment portfolio by looking for additional high risk, or do you augment risk in an investment portfolio by looking for low risk security?

Ms. BOVBJERG. Do you mean what do people do?

Mr. POMEROY. No, I mean as an investment strategy, common investment strategies.

Ms. BOVBJERG. Well, commonly people would like to hedge.

Mr. POMEROY. Exactly. I believe not just—be it Wall Street money managers or whatever, it is basic finance. If you have risk, you offset risk with low risk. It seems to me a lot of the discussion of privatizing Social Security would take the risk, the higher risk that your testimony speaks to on the private retirement savings side, and then compound that with higher risk in Social Security, something that today serves a defined benefit, guaranteed payment, adjusted for inflation, and all secure over the next 37 years. Albeit, we have to attend to it after that, but in this near-term and mid-term context, something that is relatively low-risk, especially compared to the volatility and the risks they are facing on the private side.

Ms. BOVBJERG. When you measure risk, I think it would be important to think about the totality of particular proposals. There is quite a range out there, and there are proposals that may create greater risk on one side but attempt to reduce it with another provision.

Mr. POMEROY. Final point. Much of the discussion about Social Security has been Social Security in the context of the Federal budget. Fair enough. I think your testimony redirects us a bit, and it is the critical question we ought to have. About an individual, in terms of individual retirement savings security, looking carefully at what is occurring relative to private sector activity in terms of retirement income. As we look at changes we want to make in terms of the public part, Social Security, we make sure that they complement one another, not that they actually act to exacerbate

the already tough swing to risk they have taken on the private side. I yield back.

Chairman MCCRERY. Thank you, Mr. Pomeroy. Mr. Becerra.

Mr. BECERRA. Thank you, Mr. Chairman. Ms. Bovbjerg, thank you very much for your testimony. It is great to have you here again. Thank you for all the valuable information and the details on this system. As usual, the GAO has done a remarkable job of adding some clarity to sometimes very murky questions that are often asked. Let me ask you a little bit about the Social Security program, because you outline it well in this booklet, with regard to disability and survivor benefits. My understanding is, because oftentimes when I get asked back home by folks who are interested in this subject, what the value of your Social Security benefit is, I have to break it up. Obviously, if you are getting ready to retire, it is what you will get in a retirement benefit. If you are still young and you want to know what it might do for you, you are talking not just about what it might do in 20 or 30 or 40 years for you, but if you should become disabled, what it means for you. Or, by some unfortunate circumstance you happen to pass away, and if you have survivors, what it means for them.

My understanding is that a good gauge is to say that if you are 27 years old with a spouse and two children, Social Security is providing you with the equivalent of a $400,000 or so life insurance policy, and a $350,000 or so valued disability insurance policy. Now, do you have any sense of what it would cost for someone shopping in the private sector today to buy an insurance policy for life insurance or disability insurance to get equivalent levels of coverage for someone who is 27 with a spouse and two kids?

Ms. BOVBJERG. Sorry. I don't know. I have no idea.

Mr. BECERRA. Yes, I would love to know, and I am no longer 27, so, I could not easily just call and ask. I would be interested to find out if you could even get certain insurance companies to offer you a policy. I suspect the more risky your work, the less likely an insurance company is willing to offer you a policy, or at least a reasonably priced policy, for either accidental death or life insurance, or even disability insurance. Let me ask you another question with regard to this whole issue of the trust fund. As we talk about Social Security and trying to ensure that for the next 75 years or longer that it is there for people, as it has been there for people today and has been there for people in the past 70 years, is it fair for us to talk about a trust fund as existing?

Ms. BOVBJERG. I think so, but it is important to understand that it is a budget account.

Mr. BECERRA. Right.

Ms. BOVBJERG. It is not a trust fund in the way that the people outside government might think of a trust fund. It is a budget account. It has assets in it, United States Treasury bonds. The United States Government, as the Commissioner said, has never defaulted on its bonds, will make good on its bonds. It is important to understand that it is the government essentially repaying itself. That is the hard thing, I think, to explain to people.

Mr. BECERRA. So, the only reason we could count on those trust funds not being available is if the government defaulted on paying itself.

Ms. BOVBJERG. I don't like to think about that, but yes.

Mr. BECERRA. So, it is a strange notion to consider, but how do you default if it is a payment to yourself unless we are in essence saying the Government of the United States of America no longer exists? So, unless you believe that the United States is going to crumble in the next couple of decades, then you would have to expect that we are going to live up to our promises and our guarantees through these—to repayment when these Treasury bonds are redeemed.

Ms. BOVBJERG. That is correct, and I think that much of what we talk about at GAO is just the difficulty of doing that, the fiscal and economic difficulty.

Mr. BECERRA. Right. That is what I want to get to next, the fiscal difficulty in getting there, because ultimately the money has to come from somewhere. There is no money tree that will solve our problems. So, today, as we run the largest deficits in the Federal Government's operating budget—not in Social Security, but in its operating budget—in our history, at the same time that the Social Security system is actually accruing the largest surpluses in its history, we have a total difference in accounting. Social Security today is running surpluses. Today, the Bush Administration is running the largest deficits ever. The Bush Administration is taking the Social Security moneys that are in surplus to the tune of about $170 billion this year and using it to help cover the size of its deficit, and by spending it for things that have nothing to do with Social Security. Yet, in the future we know we are going to have to repay Social Security for those moneys that the Bush Administration is using today.

So, we are in a fiscal crisis, and I would think that what we would be trying to do is get our fiscal house in order today, not in 20, 30, 40, or 50 years, but today, in order to make sure that we don't cause Social Security further problems that had nothing to do with Social Security itself, but the inability of the Federal Government or the Administration to wisely budget its moneys today.

Ms. BOVBJERG. Also, that we are prepared for the coming obligations in health, which will overshadow Social Security.

Mr. BECERRA. Thank you. I yield back, Mr. Chairman.

Chairman MCCRERY. Thank you, Mr. Becerra. Mr. Lewis?

Mr. LEWIS. Thank you, Mr. Chairman. Those future liabilities, those future obligations, if we do not solve the problem now, Social Security in 2041, benefits will be cut by 26 percent. That is just the reality. To meet the future obligations, the full faith and credit of the United States Government will have to get the money from somewhere. Where will they get the money to pay those IOUs in the future? Wouldn't Congress have to increase taxes or cut benefits?

Ms. BOVBJERG. Or borrow.

Mr. LEWIS. Or borrow.

Ms. BOVBJERG. Or reduce spending in other programs, but yes, it would have to take some action.

Mr. LEWIS. Yes. Mr. Walker said to us a few weeks ago that the gap is getting larger year by year on all the unfunded liabilities and debt, and I think he said something like $46 trillion. Is that correct?

Ms. BOVBJERG. I am not sure exactly what number he used for that. We are getting into fiscal policy, which is not my area. I do know that when we talk about 21st century challenges, and when we have looked out to the future, when you pull all of the commitments and the public priorities together, that it is a staggering number.

Mr. LEWIS. If you look at local, State, and the Federal Government combined, I think you said something in the fifties—$53 trillion, something like that. You have got great charts in here, and it shows Social Security just taking a dramatic plunge. This is reality. We just cannot stick our head in the sand and think these things are going to go away. Mr. Walker said that we needed to do something about it today, right now. We cannot put it off to try to solve it sometime in the future. I think if we care anything about our kids, our grandkids, and future generations, and about this country, then we do not have a choice to sit here and fuss back and forth about whether we need to do something or not, or how we are going to do it. We just need to bring everything to the table. My description about building a house, well, it seems to me like the Social Security house is built on the sand at this point.

When you had 40-some people paying for one person on retirement, great deal. The chain has come to an end now where we are down to three people working for one, and it is going to be two about the time my kids—grandkids come into their own. So, if that isn't building your house on the sand, I don't know what is. I am not saying that the stock market is building your house on a rock. I am saying we have got to come up with ideas, we have got to come up with a way to put this on a solid foundation, and do it as soon as we possibly can. One way that we can look at doing that is personal accounts, or however you want to describe them, retirement accounts, private accounts, whatever. If that will provide, through compound interest, more funding for our kids and grandkids and future generations and save Social Security, then put it on the table, and let's look at it. Just saying we just cannot go there is putting aside something that may have a real opportunity to save this country, and this program, and future generations from some really tragic consequences. Thank you.

Ms. BOVBJERG. Mr. Lewis, if I could just jump in for a minute, we have long said that it is really important to act sooner rather than later, and just an illustration of sooner, the Social Security surplus, the cash surplus, is going to start to get smaller. It is not that it is going to go away, but it is going to start to get smaller in a very few years when the boomers, the front end of the boomers start to retire. Just fiscally it will be harder to make that change if we wait much longer.

Mr. LEWIS. Absolutely. Thank you.

Chairman MCCRERY. Thank you, Mr. Lewis. Ms. Tubbs Jones?

Ms. TUBBS JONES. Thank you, Mr. Chairman. Thank you, ma'am, for coming before the Committee. From all that I have read and heard, it is clear that we can talk about private accounts all we want to, but private accounts alone will not cure the insolvency of Social Security. Is that a fact?

Ms. BOVBJERG. We have testified to that. I will say in saying that, I would also urge you to look at these things not piece by piece, but as a package.

Ms. TUBBS JONES. The fact is that my colleague, Mr. Lewis, just said that private accounts—allowing the opportunity to invest in the market could cure the problem that we are facing in Social Security, and the fact is private accounts alone will not cure the insolvency of Social Security. You agree with that?

Ms. BOVBJERG. Not by themselves. They have the potential to make——

Ms. TUBBS JONES. That was my question, ma'am.

Ms. BOVBJERG. It more stable.

Ms. TUBBS JONES. Private accounts alone will not cure the insolvency of Social Security.

Ms. BOVBJERG. That is correct.

Ms. TUBBS JONES. Thank you. The booklet, this is produced by GAO, a nice little booklet. You produced it today?

Ms. BOVBJERG. We got it from the printer this morning.

Ms. TUBBS JONES. You got it from the printer this morning.

Ms. BOVBJERG. We have been working on this for some time.

Ms. TUBBS JONES. We have been working—okay. Let me turn to a couple pages in the booklet. I highlighted it. I passed it—oh, here we go. Changing benefits, page 37. One of the ways to change the benefits formula, one of them, it says, is indexing the lifetime earnings used in the formula by prices instead of wages. If you go further down, it says indexing to prices rather than wages commonly implemented by modifying the replacement percentages with reduced benefits. Fact?

Ms. BOVBJERG. Yes.

Ms. TUBBS JONES. Going further down, indexing the benefit formula to reflect improvements in longevity, indexing benefits to such improvements in longevity would be similar to increasing the full retirement age, as workers would have to retire at an older age to get the same benefit they would under current formula, and would result in a proportional benefit reduction across all earning levels.

Ms. BOVBJERG. Correct.

Ms. TUBBS JONES. There has been a lot of discussion about changing how we compute the benefits, but the fact is, moving from wage indexing to price indexing is going to force everybody's benefit down, is going to reduce it unless you do some of this tricky math called progressive indexing, right?

Ms. BOVBJERG. Compared to current law, compared to what is——

Ms. TUBBS JONES. Yes, exactly.

Ms. BOVBJERG. Promised.

Ms. TUBBS JONES. Well, all we can do—when we say reduce, we are going to by what we have—excuse me. Maybe that is not—that is presumptive of me. Compared to current law, the benefits would be reduced using these formulas.

Ms. BOVBJERG. Yes.

Ms. TUBBS JONES. How do we get these for our constituents? We just call and ask?

Ms. BOVBJERG. Absolutely.

Ms. TUBBS JONES. So, there are millions available to the American public?

Ms. BOVBJERG. Our budget is not such that they would let me print millions. I had to beg and plead to get some today. We do have a fair number.

Ms. TUBBS JONES. Who is your——

Ms. BOVBJERG. There will be bunches of them coming to this Committee, in particular.

Ms. TUBBS JONES. Okay. So, I do not have to put in my request for a few.

Ms. BOVBJERG. No, and if you do not get your copies, please have your staff call me. I will make sure that you——

Ms. TUBBS JONES. That number is? No, I am kidding.

[Laughter.]

Ms. BOVBJERG. I will tell you later.

Ms. TUBBS JONES. In any of the research that you have done, can you tell me if there is any—and I did not have a chance to look through this, issues with regard to gender in here? Are there issues—not issues. Information with regard to gender, any information with regard to race?

Ms. BOVBJERG. Well, we have done a lot of work on that.

Ms. CACKLEY. We have done work on both of those issues, but I cannot tell you offhand whether it is in a book. We don't think so.

Ms. TUBBS JONES. We don't think so, okay. Would you forward me some of that?

Ms. CACKLEY. I would be happy to.

Ms. TUBBS JONES. Thanks. Mr. Chairman, I am yielding back my 2 seconds.

Chairman MCCRERY. I thank the gentlelady. Mr. Brady?

Mr. BRADY. Mr. Chairman, I always appreciate Ms. Bovbjerg's testimony, but just in the interest of time for the next panel, I will pass. Thank you for being here.

Chairman MCCRERY. Thank you, Mr. Brady. Mr. Neal?

Mr. NEAL. Thank you, Mr. Chairman. In the interest of time, I won't pass.

[Laughter.]

Thank you very much, Mr. Chairman. Mr. Hulshof quoted Gerald Ford, a well-regarded, highly respected figure here, and our staff has been able to get an exceptional quote from President Eisenhower, a revered figure as well in American history. He suggested that should any political party attempt to abolish Social Security, unemployment insurance, and eliminate labor laws and farm programs, you would not hear of that political party again. There is a tiny splinter group, of course, that believes you can do these things, and among them are a few Texas oil millionaires and an occasional politician or businessman from other areas. Their number, of course, is negligible and, as President Eisenhower noted, quote, "They're stupid."

I thought that was interesting that Mr. Hulshof drew a quote from, again, another highly regarded figure, President Ford, and we will offer this one for the record as well. I appreciate your testimony, but let's go back to this notion of survivor benefits and the

most vulnerable. Let me follow on a train of questions that I began with the previous witness.

[The information follows:]

Quote from Dwight D. Eisenhower:

Should any political party attempt to abolish Social Security, unemployment insurance, and eliminate labor laws and farm programs, you would not hear of that party again in our political history. There is a tiny splinter group, of course, that believes you can do these things. Among them are H. L. Hunt (you possibly know his background), a few other Texas oil millionaires, and an occasional politician or businessman from other areas.5 Their number is negligible and they are stupid.

Ms. Barnhart testified that there are two million children who receive survivor benefits, and that she could not guarantee that those benefits would remain stable for minor children who qualified for Social Security or survivor benefits because of a parent's death. Let me talk hypothetically for a moment about what would happen to these children if, as the President's chief economic adviser suggested, their benefits would be subject to the President's middle-class benefit cut. Under the current system, if a 30-year-old man dies leaving 3 minor children, his widow and each of the minor children are guaranteed an indexed dollar sum every month. Isn't that the case?

Ms. BOVBJERG. Yes, it is.

Mr. NEAL. Okay. Now, can we guarantee, even though that benefit would grow with the economy, that under the President's plan, that benefit would remain guaranteed?

Ms. BOVBJERG. I haven't seen anything in a Presidential proposal that addresses survivor or disability, really, very directly.

Mr. NEAL. Okay. The President's plan tries to sell a tradeoff. In exchange for a private account, people must accept a large benefit cut and pay a privatization tax out of the proceeds of that account. My thought is that this approach is a double hit to survivors. They have to deal with a benefit cut, and they are expected to get along at a private account that has not necessarily grown very big. A 30-year-old worker who dies wouldn't have had many years to contribute to his account. The principal would be small, and it wouldn't have grown much from interest as a result. What would happen to the children of this young 30-year-old worker who dies?

Ms. BOVBJERG. Well, that is similar to a situation with someone who is disabled early in their working life. You could have that situation. When we looked at the Model Two, the Commission's Model Two proposal, what we discovered was that disabled beneficiaries were gaining from the minimum benefit that was part of that proposal. However, I understand that the Commission had said they did not intend to affect disability benefits. As I believe someone here said earlier in this hearing, any change to retirement benefits necessarily affects disability and survivor benefits. So, you would need to do something explicitly to protect those populations if that was your intent.

Mr. NEAL. Thank you, but the point that I am trying to raise is that there is no guarantee that these children will have enough support from that private account to see them through adulthood, is there?

Ms. BOVBJERG. I can't say yes or no because I haven't seen a proposal. I don't want to say that there is no guarantee when I haven't seen that there is a proposal.

Mr. NEAL. I think part of the argument that we have here today—and I hope this is clarifying for the public—is that we really are talking about rolling the dice as opposed to the guaranteed benefit. When you zero in on the respective arguments that Members of the Committee are making, that is what it really comes down to—the guarantee that the current system provides versus what an alternative system might provide. That is the problem in this debate. Thank you very much.

Chairman MCCRERY. Thank you, Mr. Neal. Mr. Ryan?

Mr. RYAN. I unfortunately will not pass. I won't use my full 5 minutes in the interest of time, but I wanted to go through and just try and correct for the record a couple of things that have been said. First, I just want to point out, this is a great book, but on page 58 you have some printing errors, so, you may want to check that out. Maybe it is just my copy, but I just wanted to point that out. You may want to look at that.

Mr. NEAL. It is just your copy.

Mr. RYAN. Just my copy, then, okay. I will show it to you a little later. Okay. You said to Mrs. Tubbs Jones that personal accounts do not in and of themselves help achieve solvency. Do you stand by that quote?

Ms. BOVBJERG. I do, by themselves.

Mr. RYAN. Do they help achieve solvency?

Ms. BOVBJERG. That is sort of a technical—I see that as sort of a technical response. It depends on what else is around them.

Mr. RYAN. I don't know if you have taken a look at the plan that I introduced with Senator Sununu, which has been scored officially by the Chief Actuary of the SSA three times now, and that is a large personal account bill with no benefit change, no tax increase, which three times they have scored as achieving full solvency. So, you can look at medium-sized accounts, small accounts, which do contribute to solvency because of the benefit offset, but large personal retirement accounts, which now, according to the Social Security Chief Actuary, who three times told us that the accounts, in and of themselves do restore solvency.

Mr. POMEROY. Will the gentleman yield?

Mr. RYAN. Sure.

Mr. POMEROY. A quick question. It is my understanding that you got that score because you make provision for infusion into the Social Security program of revenues from the general fund.

Mr. RYAN. Oh, yes. Yes, yes.

Mr. POMEROY. It is indeed that provision that got you that score.

Mr. RYAN. No. That gets you the transition financing. It is the benefit offset that brings you into solvency. Let me just—it goes to the issue Mr. Neal was talking about, which is—and this is the question. I am getting to a question. If I, as a 35-year-old worker decide to have a personal retirement account, and I put a portion of my payroll taxes in that account, I don't get a traditional benefit based on those dollars that go into my personal retirement account because I am going to get it from my personal retirement account.

If I got that traditional benefit and my personal retirement account, I would be double-dipping. I would be getting two benefits for the price of one. Double-dipping is wrong, because it would not be right for a person to get two benefits for the price of one, and I will instead get that portion of my Social Security benefit from my personal retirement account based upon those dollars from my payroll tax that go into that account. I forego that traditional benefit and, therefore, Social Security is off the hook to pay me that traditional benefit. It is that benefit offset which helps bring the system into solvency. If the accounts are large enough, the benefit offset is even larger, which brings the system into solvency.

Now, for me as a 35-year-old, all I have to do is beat 1 percent, because that is what my generation is going to get under Social Security, if Social Security could meet the promises that it is promising me, which right now it is about $4 trillion shy in doing. For my children to beat their benefit, they would have to beat a negative 1-percent rate of return. So, the point I am making is——

Mr. NEAL. Would the gentleman yield?

Mr. RYAN. Sure.

Mr. NEAL. Didn't the gentleman receive survivor benefits?

Mr. RYAN. Yes, I actually did receive survivor benefits.

Mr. NEAL. Then you already beat the system.

Mr. RYAN. Yes, well, okay. Thank you. The gentleman is referring to my personal situation.

Mr. NEAL. Mine as well, and Mr. Brady's as well.

Mr. RYAN. I am going to reclaim my time. My dad passed away when I was 16. I did get survivor benefits. It helped me pay for college. It helped my mom go back and learn a trade to go back to work and start a business. My mom was given a choice when my dad died. She was given a choice of either get the benefit based upon the payroll taxes she had paid all those years she worked or the benefit based on the taxes my dad paid, not both. She got a $250 death benefit, and then she had to forego all those payroll taxes she paid into the system when she worked and then get my dad's benefit. Under a personal retirement account, not only would my mom be able to keep all those payroll taxes she put into the system, she would get my dad's personal retirement account on top of it. So, I think there are a lot of inequities in the system that are addressed with this kind of an idea, but the notion, or the statement that personal retirement accounts do not help contribute to solvency, or in my bill's case, do not achieve solvency, is a false notion. I just wanted to ask you to respond to that.

Ms. BOVBJERG. Well, I would like to say that we see a number of proposals that are scored—I know that your proposal has been scored as achieving solvency, Mr. Shaw's proposal has been scored as achieving solvency, that have individual accounts in them. There are other provisions such as, as you mentioned, the benefit offset. That is why I said it is kind of a technical point that the account itself does not achieve solvency.

Mr. RYAN. That is right. I just want to make sure we clear that up. The account itself, but if combined with the benefit offset that prevents double-dipping, can therefore, contribute toward solvency.

Ms. BOVBJERG. That is why we do urge that people look at the entire comprehensive proposal, look at how everything fits together.

Mr. RYAN. Right. Thank you. I yield.

Chairman MCCRERY. Thank you, Mr. Ryan.

Ms. BOVBJERG. May I just add?

Chairman MCCRERY. Certainly.

Ms. BOVBJERG. My very-on-top-of-it-staff point out that my phone number is on page two in here. I know I am going to regret pointing this out. So, anytime you want more copies of this, we are there.

Chairman MCCRERY. Okay. Thank you very much.

Ms. BOVBJERG. We will get them to you.

Chairman MCCRERY. Ms. Bovbjerg and Ms. Cackley, for your contribution to today's hearing. We appreciate your being here.

Ms. BOVBJERG. Thank you.

Ms. CACKLEY. Thank you.

Chairman MCCRERY. Now we call our final panel of the hearing: Carrie Lukas, Director of Policy, Independent Women's Forum; Marty Ford, Co-Chair of the Social Security Task Force, Consortium for Citizens with Disabilities; Michael Tanner, Director, the Cato Institute's Project on Social Security Choice; Maya Rockeymoore, Vice President of Research and Programs, Congressional Black Caucus Foundation; Nancy Duff Campbell, Co-President, National Women's Law Center. If you all would please take your seats. Welcome everybody. I think you know the procedure. Your written testimony will be inserted into the record in its entirety, and we would like for you to summarize your written testimony in about 5 minutes each. So, we will begin with Ms. Lukas.

STATEMENT OF CARRIE L. LUKAS, DIRECTOR OF POLICY, INDEPENDENT WOMEN'S FORUM

Ms. LUKAS. Thank you. Mr. Chairman, distinguished Members of this Committee, thank you for inviting me to appear before you today to testify on an issue so critical to our country's future. My name is Carrie Lukas, and I am the Director of Policy at the Independent Women's Forum, a nonprofit organization dedicated to exploring how public policy can give women greater freedom, independence, and economic security. I first began studying Social Security's looming financial problems and its impact on women in 1997, when I arrived in Washington at age 24. I realized then that all women—from those in retirement to those just beginning their careers—have a great deal at stake in the Social Security reform debate.

Today, when I think about Social Security and its effects on women, I have one woman in particular in mind. In September, my husband and I will be blessed with our first child, and we just found out that we are having a baby girl.

When I think about the challenges facing Social Security and how Congress should be evaluating reform proposals, I believe it is critical that we focus on creating a system that will serve the next generation.

I believe there will be universal agreement on this panel that as we reform Social Security, we need to make certain that the new

system preserves Social Security's promise and protects the most vulnerable members of society—many of whom are women. Clearly, that requires protecting the benefits of current seniors and those approaching retirement. It also means that we should protect the benefits of low-income workers so that Social Security fulfills its promise of keeping seniors out of poverty. I believe we also need to think seriously not just about how the system will affect those of us working today, but the workers of tomorrow. What kind of Social Security system do we want to endow to my daughter and her peers entering the world in 2005?

For those children, Social Security's financial crisis is not something that can be shrugged off as occurring in a distant future. It will be a reality they face throughout their lives. Social Security will be running a deficit before my little girl finishes grade school. If nothing is done to address Social Security's shortfall, by the time my daughter graduates from college, she will not only lose 12.4 percent of her income to payroll taxes, but a portion of her income taxes also will have to be used to prop up Social Security as well. Well before my daughter reaches retirement, Social Security will be unable to meet its present obligations, and her retirement benefits will be slashed. We must do better for our children. In my submitted testimony I highlight some of the pitfalls of the existing system that particularly affect women.

In brief, Social Security's benefit structure penalizes the decisions of some women while rewarding others. Women whose marriages last for 10 years have no right to the benefits accrued by their husbands during their marriage, which means that many divorced women have to start from square one in saving for retirement. Married women receive no additional benefits for their payroll taxes, which may deter some from entering the workforce. Single mothers who work all of their lives but die before reaching 65 cannot pass on any of their Social Security benefits to their adult children. All of these inequities are the result of Social Security's lack of ownership. None of the money paid into the system by these women and their family members is saved for their retirement. This needs to change. Incorporating a system of personal accounts into Social Security is the key ingredient for making the system more financially sound and addressing the existing inequities in the current system for women. Personal accounts would put women on more equal footing. Those women who choose to work would be putting money away for their retirement. If they take time out of the workforce, their personal accounts would continue to accrue in value.

Personal accounts would be an individual's private property. Therefore, in the event of divorce, the personal account could be divided equally between the husband and wife during settlement, just like all other assets. Personal accounts would also be inheritable. That single mother who has been paying payroll taxes all her life would know that if she dies before reaching retirement, her adult children would receive the benefit of her lifetime of labor. Personal accounts would also give women the opportunity to earn a higher rate of return on their income, which is particularly important for women since we are less likely than men to have jobs

that provide other retirement savings options, like 401(k)s or corporate pensions.

Incorporating a system of personal accounts into Social Security would not require eliminating guaranteed benefits from the system. In fact, reform proposals such as the President's proposal to use progressive indexing to reduce Social Security's unfunded liability would strengthen the safety net compared to current law by ensuring that low-income Americans would not have their benefits cut in the future.

I urge Congress to act immediately to reform our Social Security program. I believe American women deserve greater control over their retirement dollars and more choice when it comes to Social Security. The combination of personal retirement accounts and progressive indexing will create a better, stronger, and fairer Social Security system for women.

Finally, these reforms are critical to easing the burden on future generations. This is something that is too often overlooked when we talk about Social Security reform and women. Most women's top priority is making sure that their children have more opportunities than they do. Social Security should be no exception. We cannot simply push tough choices down the road and leave our children with a mountain of debt and a crushing tax burden through our Social Security program. We should act now to create a funded, fairer Social Security system and a better future for the next generation. I thank you and look forward to your questions.

[The prepared statement of Ms. Lukas follows:]

Statement of Carrie L. Lukas, Director of Policy, Independent Women's Forum

Mr. Chairman and distinguished Members of this Committee, I thank you for inviting me to appear before you today, to testify on an issue so critical to our country's future. I am thrilled that this Committee is holding this hearing to consider Social Security's effects on women.

My name is Carrie Lukas and I am the director of policy for the Independent Women's Forum, a nonprofit organization dedicated to exploring how public policy can give women greater freedom, independence, and economic security. I first began studying Social Security's looming financial problems and its impact on women in 1997, when I arrived in Washington at age 24. I realized that all women—from those in retirement to those just beginning their careers—have a great deal at stake in the Social Security reform debate.

But today, when I think about Social Security and its effects on women, I have one woman in particular in mind. In September, my husband and I will be blessed with the birth of our first child, and we just found out that we are having a baby girl.

When I think about the challenges facing Social Security and how Congress should be evaluating reform proposals, I believe it's critical that we focus on creating a system that will serve the next generation.

I believe there will be universal agreement on this panel that as we reform Social Security, we need to make certain that the new system preserves Social Security's promise and protects the most vulnerable members of society—most of whom are women. Clearly that requires protecting the benefits of current seniors and those approaching retirement. It also means that we should protect the benefits of low-income workers so that Social Security fulfills its promise of keeping seniors out of poverty.

But I believe that we also need to think seriously not just about how the system will affect those of us working today, but the workers of tomorrow. What kind of Social Security system do we want to endow to my daughter and her peers entering the world in 2005?

For those children, Social Security's financial crisis is not something that can be shrugged off as occurring in a distant future—it will be a reality they face throughout their lives. Social Security will be running a deficit before my little girl finishes

grade school. If nothing is done to address Social Security's shortfall, by the time my daughter graduates from college, she will not only lose 12.4 percent of her income to payroll taxes, but a portion of her income taxes will also have to be used for Social Security. And well before my daughter reaches retirement, Social Security will be unable to meet its present obligations and her retirement benefits will be slashed.

We must do better for our children. So today I will discuss some of the problems with the current system—in particular its disparate affect on women—and how incorporating personal retirement accounts into Social Security can address existing inequities, move us closer to solvency, and create a better, fairer system for future generations of women.

Problems in the Current System for Women

Social Security was designed at a time when few women were working outside of the home. It was designed to meet the needs of traditional families—a working husband and a full-time homemaker.

Great changes have taken place during the seventy years since Social Security's creation. Today, most women are working outside of the home. Many women—with or without children—never marry, and divorce has become more prevalent among those who do, putting many women at risk of economic hardship. Unfortunately, Social Security's structure hasn't been updated to reflect the changing times.

Today, women take on many roles. We are homemakers; we are workers; we are the caretakers of elderly family members; we are spouses; we are single earners; and sadly, we are also widows. Women will take on many of these roles during their lives, and often must make difficult choices about what's best for themselves and their families. It is an important principle in public policy that individuals should be free to make these personal decisions without government interference. Unfortunately, under the current system, Social Security penalizes some women for their choices while rewarding others. When considering reforms to Social Security, it should be a goal to treat all women equally.

Under the current system, women either receive benefits based on their own work history or as a result of their husbands' work history. A woman who never joins the formal workforce and pays no Social Security taxes will receive benefits worth 50 percent of her husband's monthly benefit at retirement. A married woman who works will receive the higher of either half of her husband's benefits or a payment based on her own work history. That means that many married women who join the workforce receive no additional benefit for the taxes they pay into the system.

This is unfair to working women and distorts the decision of whether to enter the workforce in the first place. A married woman already faces high marginal tax rates because her income is combined with her husband's for tax purposes. If she expects to receive no additional retirement benefits from the taxes deducted from her paycheck, then she may be further discouraged from taking a job.

Social Security also includes some very serious drawbacks for the stay-at-home mom. Consider the situation of a stay-at-home mom who ends up divorced. This woman agreed to forgo earning her own income in order to raise children while her husband worked. But if she gets divorced after having been married for less than 10 years, that woman has no right to any portion of the retirement benefits that her husband accrued while they were married. This means that many divorced women are forced to start from square one when saving for retirement.

Many single women also face problems under Social Security. Consider a 60-year old single-mom who has been working all of her life to raise her children. In addition to struggling to provide for her family's needs, she has been paying taxes to Social Security. If she dies at age 60 and her children are over age eighteen, according to Social Security's rules, her family will receive a paltry $255 death benefit. Her years of work and thousands dollars in taxes paid will have been for nothing. This example is not an aberration: U.S. Census Bureau data shows that, each year, tens of thousands of single women between the ages of 24 and 64 die.

All of these inequities are the result of Social Security's lack of ownership. None of the money paid into the system by these women and their family members is saved for their retirement. This needs to be changed.

Future Funding Shortfall

The final problem I would like to highlight is that the current system is not only unfunded, it is unsustainable.

Opponents of reform correctly emphasize that women are more dependent on Social Security than are men. However, because they offer no real solutions to the funding problems ahead, they leave women at an even a greater risk of poverty than today. In fact, a Social Security Administration study showed that if nothing is done

to fix looming problems, the poverty rate of our elderly will double! Doing nothing simply is not an option.

The reasons are obvious: If nothing is done to address Social Security's financial problems, it will begin running a deficit in just over 10 years. At that time, Social Security will require significant infusions of additional revenue, which means that the government will either have to raise taxes or cut spending on other programs. By the time that I am getting ready to retire in 2040, Social Security will only have enough money coming in to pay about three-quarters of the benefits that I have been promised. That means that either my benefits will have to be slashed or my daughter—who will likely be working to raise a daughter of her own by that time—will face a skyrocketing tax burden.

I urge Congress to act now to put Social Security on firm financial footing, so that men and women have time to prepare for the changes that must take place. In reforming Social Security, Congress should address the inequities in the existing benefit structure so that it treats women, regardless of the roles they take on during their lives, more fairly.

The Benefits of Personal Retirement Accounts

Incorporating a system of personal retirement accounts into Social Security is the key ingredient for achieving all of these goals—for making the system more financially sound and addressing the inequities in the current system for women.

Personal accounts would put women on more equal footing. Those women who choose to work would be putting more away for retirement. Those who choose to stay at home would still be earning interest on the money they previously invested, and a woman would know that if and when she chooses to return to the workforce, she won't just be throwing her payroll taxes away.

Personal accounts would be an individual's private property. Therefore, in the event of divorce, the personal account could be divided equally between the husband and wife during settlement, just like all other assets. Personal accounts also would be inheritable. That single mother who has been paying payroll taxes all her life would know that if she dies before reaching retirement, her adult children will receive the benefit of her lifetime of labor. They could use that money to go to college or to start a business.

Personal accounts would also give women the opportunity to earn a higher rate of return on their income, which is particularly important since women are less likely than men to have jobs that provide retirement savings options, such as corporate pensions or 401(k)s.

Opponents of personal retirement accounts often dismiss the importance of achieving higher rates of return and emphasize the "risk" associated with investing in the market. But none of these opponents—and I would assume no one in this room—actually believes that people should avoid investing in a sound mix of assets, including stocks and bonds.

So if there is general agreement that saving and investing is an important part of retirement planning, then the real debate is simply whether individuals should have the choice to use some of this money—their payroll taxes—to fund personal retirement accounts. Those who don't want people to use payroll taxes want individuals to come up with other money and invest that for retirement.

Women tend to be the household money managers; we know just how difficult it can be to make ends meet. This is particularly true for lower income women. They are paying for housing and food. They are paying for healthcare. And, they may be trying to put money away for a child's future college education. After paying taxes, it's nearly impossible for these women to scrape up extra money that can go into a retirement fund.

That's why using current payroll taxes to fund personal retirement accounts is so important. Workers already lose nearly 1 in every 8 dollars they earn to Social Security. Why should we tell that cash-strapped working mom to cut something else out of her budget so that she can put more away for retirement? It's time to let her make the most of the money that is already supposed to be dedicated to her retirement—her payroll taxes.

Preserving Social Security's Promise for Vulnerable Americans

Incorporating a system of personal retirement accounts into Social Security would not require eliminating guaranteed benefits from the system. In fact, reform proposals being discussed would strengthen the safety net compared to current law by ensuring that lower income Americans will not have their benefits cut in the future.

Under the President's proposal to use progressive indexing to reduce Social Security's unfunded liability, low-income Americans would be protected from the benefit cuts scheduled under current law. It would ensure that all Americans would receive

benefits equal to or greater than the benefits received by today's seniors, even after adjusting for inflation. However, this proposal would recognize that the government cannot pay all of the benefits that have been promised and would make gradual adjustments to reduce Social Security's liabilities in a manner that is equitable and gives individuals time to adjust their retirement savings plans accordingly.

Conclusion

In our society, a woman has the right to choose where to live, whom to marry, whether or not to have children, and how to protect herself and her family from very real threats that exist in our country today. Women also should be able to decide for ourselves whether we want to keep putting all of our money into Social Security, or keep a portion of it in an account that we own and can watch grow.

I believe American women deserve greater control over their retirement dollars and more choice when it comes to Social Security. The combination of personal retirement accounts and progressive indexing will create a better, stronger, and fairer Social Security system for women. Among the many benefits of this proposal is that it will:

- Protect the benefits of current retirees;
- Improve the safety net for low-income Americans, who are disproportionately women, compared to current law;
- Make the system more equitable in its treatment of women; and,
- Create inheritable assets for all Americans who choose personal accounts.

Finally, these reforms are critical to easing the burden on future generations. This is something too often overlooked when we talk about Social Security and women. Most women's top priority is making sure that our children have more opportunities than we do. Social Security should be no exception. We cannot simply push tough choices down the road and leave our children with a mountain of debt and a crushing tax burden. We should act now to create a funded, fairer Social Security system and a brighter future for the next generation.

Chairman MCCRERY. Thank you, Ms. Lukas. I would urge you not to paint the room pink just yet.

[Laughter.]

Ms. LUKAS. You never know.

Chairman MCCRERY. Our second boy was supposed to be a girl, so, I would hold off on that until a little later.

Ms. LUKAS. Thank you.

Chairman MCCRERY. Ms. Ford?

STATEMENT OF MARTY FORD, CO-CHAIR, SOCIAL SECURITY TASK FORCE, CONSORTIUM FOR CITIZENS WITH DISABILITIES

Ms. FORD. Thank you. Chairman McCrery, Representative Levin, and Members of the Subcommittee, thank you for this opportunity to testify on behalf of the Consortium for Citizens with Disabilities' Social Security Task Force. The Social Security retirement, survivors, and disability programs are vitally important to people with disabilities and their families. Adults with severe disabilities have a very low employment rate. According to a Harris survey, only 35 percent of people with disabilities work full-time or part-time, compared to 78 percent of those without disabilities.

Social Security is a very successful insurance program, protecting against poverty in retirement, in the event of severe disability, and in the event that a family wage earner dies. People with disabilities and their families receive Social Security benefits from all three programs.

First, the retirement program covers people who are disabled workers when they reach normal retirement age. At that point their benefits convert automatically from disability to retirement

insurance and remain at the same level. Their spouses and disabled adult children may also qualify. Others with disabilities also receive retirement benefits. This includes people who did not meet the strict rules for disability insurance, yet are prevented from working regular hours because of their health. They earned less, had less opportunity to save, and therefore, will have a greater need for Social Security retirement benefits in the future. Second, the survivors program includes disabled widows and widowers and disabled adult children. Finally, the disability program covers disabled workers, their children and spouses, and their disabled adult children. This is the program that most people are referring to when they talk about the disability program. Even with Social Security, the poverty rate among disabled workers and their families is 18 percent, twice as high as other people who get benefits. It is estimated, however, that 55 percent of families of disabled workers would live in poverty without Social Security.

Certain program elements are common across the three programs. The definition of disability is the same for all of the programs. The formula for determining individual benefits using the primary insurance amount is the same for all three programs, including for people with disabilities. People move between programs as life circumstances change. Those receiving disabled adult child (DAC) benefits are particularly vulnerable to changes in the benefits formula, and since they may receive benefits from any of the three programs, they illustrate how interconnected the programs are. They receive benefits when their parent becomes disabled, retires, or dies. While the parent is living, the DAC benefit is up to 50 percent of the parent's benefit. When the parent dies, the DAC benefit is up to 75 percent of the parent's benefit. The size of the parent's benefit will affect the disabled adult child's income for life.

Social Security has a number of critical features that are important to meet the needs of people with disabilities and their families. They include the guaranteed monthly payment, adjusted each year for inflation, and the weighted benefit formula, ensuring that people with the lowest incomes are protected. Because they are affected by changes to any of the three programs, people with disabilities must be considered in evaluating all proposals. We believe that any changes should follow these principles: keep Social Security's current structure based on payroll taxes; preserve Social Security as social insurance; guarantee monthly benefits adjusted for inflation; preserve Social Security to meet the needs of people who are eligible now and in the future; and restore Social Security's long-term financial stability.

We believe it is possible to make the Social Security programs more financially secure with modest targeted changes over time. We oppose plans that would partially replace Social Security's Trust Funds or revenues with individual private accounts. We believe they would be harmful to people with disabilities who must rely on Social Security for life's essentials. The more limited ability of beneficiaries with disabilities to work and to save for the future and the reality of their higher rates of poverty must be taken into consideration in any efforts to change the Social Security programs.

We strongly urge Congress to require a comprehensive analysis of the impact that each proposal will have on people who receive

Social Security now and in the future. There are many sub-populations of Social Security beneficiaries. It is essential that Congress understand how each will be affected. We urge Congress to request a beneficiary impact statement on every major proposal under consideration. While we do not support private accounts that reduce Social Security benefits, there are a number of recommendations that we have for improvements to the traditional Social Security program. They include eliminating the 24-month Medicare waiting period and the 5-month Social Security waiting period, and increasing the substantial gainful activity level for people with disabilities to that level used for people who are blind. We have other recommendations in my written testimony, and I thank you for this opportunity to testify.

[The prepared statement of Ms. Ford follows:]

Statement of Marty Ford, Co-Chair, Social Security Task Force, Consortium for Citizens with Disabilities

Chairman McCrery, Representative Levin, and Members of the Subcommittee, thank you for this opportunity to testify on protecting and strengthening Social Security.

I am a member of the policy team for The Arc and UCP Disability Policy Collaboration, which is a joint effort of The Arc of the United States and United Cerebral Palsy. I am testifying here today in my role as cochair of the Social Security Task Force of the Consortium for Citizens with Disabilities. CCD is a working coalition of national consumer, advocacy, provider, and professional organizations working together with and on behalf of the 54 million children and adults with disabilities and their families living in the United States. The CCD Social Security Task Force focuses on disability policy issues in the Title II disability programs and the Title XVI Supplemental Security Income program.

Importance of the Social Security Programs for People with Disabilities

The Social Security Old Age, Survivors, and Disability Insurance programs are vitally important to people with disabilities. Social Security is far more than a retirement program. In fact, more than one-third of all monthly Social Security checks go to over 17 million people who are not retired. They include:

- Almost 6 million disabled workers. To qualify they must have a severe disability that is expected to last at least 12 months or result in death.
- About 1.6 million minor children of disabled workers.
- About 759,000 disabled adult children. These individuals have a severe disability that began before age 22. They qualify when a parent becomes disabled, retires or dies. They get benefits from different Social Security programs depending on their parent's status.
- Over 200,000 disabled widow(er)s, ages 50 to 65.

Social Security benefits are critical to people with disabilities and their families. People can plan for retirement over many years. But disability can affect anyone at any time and often is completely unexpected. Disability-related expenses for individuals and families can be extraordinary and can have a significant impact on the individual's or family's ability to save for the future or the needs of other family members.

Millions of families face disability. Adults with severe disabilities have a very low employment rate. According to a 2004 Harris Survey, only 35 percent of people with disabilities reported working full or part time, compared to 78 percent of those who do not have disabilities. Disabilities can interfere with the ability to work until normal retirement age and the ability to save for a family's future. Families of workers who become disabled need a guaranteed income.

We view Social Security as a very successful insurance program. It insures people against poverty in retirement years, in the event of severe disability during work years, and in the event that a family wage earner dies. In fact, people with disabilities and their families receive Social Security benefits from all three programs.

Retirement Insurance: When disabled workers (those receiving Disability Insurance benefits) reach normal retirement age, their benefits convert automatically from disability to retirement insurance. Spouses and disabled adult children (discussed further below) also qualify. Other people with disabilities also get retirement

insurance. Although they did not meet the strict rules for disability insurance, their health may have prevented them from working regular hours. As a result, they earned less and had fewer chances to save money. Parents who must stop working to care for their children with disabilities face the same situation of having less income now and a greater need for Social Security retirement benefits in the future.

Survivors Insurance: Individuals who qualify include minor children and spouses of workers and retirees who have died; disabled widow(er)s; and disabled adult children. For a young family, Social Security provides benefits that are equivalent to life insurance worth $400,000.

Disability Insurance: Individuals who qualify include disabled workers, their children and spouses, and disabled adult children. For a young worker with a spouse and two children, Social Security provides benefits that are equivalent to disability insurance worth $353,000.

Integration of Disability Programs

As described above, people with disabilities are found throughout the Social Security retirement, survivors, and disability programs and certain program elements are common across the three programs.

The Social Security Act establishes that disability means "inability to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than 12 months". In 2005, the substantial gainful activity (SGA) level, as established in regulations, is $830/month for people with disabilities and $1,380/month for individuals who are blind. The definition of disability is the same for all of the programs.

The formula for determining individual benefits, using the primary insurance amount, is the same for all three programs, including for people with disabilities.

Beneficiaries receiving disabled adult child (DAC) benefits illustrate the interconnectedness of the programs and are particularly vulnerable to changes in the benefits formula. Individuals qualify for disabled adult child benefits if they: have a severe disability that began before age 22; are not married (with some exceptions); and are unable to earn more than the SGA level. Disabled adult children receive benefits when their parent becomes disabled, retires, or dies. Most disabled adult children get retirement or survivor insurance, but some get disability insurance. While the parent is living (either disabled or retired), the DAC benefit equals up to 50 percent of the parent's benefit. When the parent has died, the survivor's DAC benefit equals up to 75 percent of the parent's benefit. In both cases, the actual benefit may be lower, based on the application of the family maximum to all of the benefits based on one worker's record. Technically, the DAC benefit is paid from the Disability Insurance Trust Fund when the parent is drawing disability insurance benefits, while the DAC benefit is paid from the Old Age and Survivors Insurance Trust Fund when the parent is either retired or deceased.

Important Features of Social Security Benefits

Current Social Security benefits have a number of critical features that are important to meet the needs of people with disabilities and their families. They include:

Guaranteed monthly payment: Once determined eligible, disabled workers and their families can expect a set payment each month. Changes in the PIA will change not only retirement benefits, but also survivor and disability benefits and DAC benefits because they are set by the same formula. Reducing the PIA will force more people with disabilities further into poverty.

Adjusted each year for inflation: Annual cost of living adjustments (COLAs) protect the value of Social Security benefits. Reducing the COLA by even a small amount makes a big difference over time. Also, the current benefit formula is tied to the "wage index." A change in that formula would affect all categories of beneficiaries.

Weighted benefit formula: The current benefit structure favors workers with lower earnings by using a higher replacement rate for lower earnings. This approach is especially helpful for workers with disabilities (even those who never qualified for disability insurance benefits) because many are only able to work part time, intermittently, or at reduced levels.

Social Security Reduces Poverty for Workers with Disabilities & Their Families

Almost half (48 percent) of families with a disabled worker rely on Social Security benefits for half or more of their family income. Close to one-fifth (18 percent) rely on benefits for nearly all of their income and about 6 percent have no other income besides Social Security.

When workers die, their children get benefits. About 98 percent of children who are under age 18 when their parent dies get benefits. The survivor's benefit is based on the earnings of the person who died. The average monthly benefit in 2005 for a widowed mother with two children was $1,979 [$23,748 a year].

Although Social Security reduces poverty, disabled workers and their families still struggle financially. But without Social Security, their circumstances would be even worse.

The poverty rate among disabled workers who receive Social Security and their families is twice as high as other people who get benefits. However, it is estimated that 55 percent of families of disabled workers would live in poverty without Social Security benefits.

Principles for Proposed Changes to Social Security

Most of the discussions regarding Social Security and its future revolve around retirement benefits. However, it is clear that people with disabilities also have a major stake in this debate. The CCD Social Security Task Force strongly believes that people with disabilities have such a major stake in this debate that it is critical that their needs be one essential lens through which all proposals are evaluated. We believe it is possible to make the Social Security programs more secure financially with modest, targeted changes over 20 to 30 years. We believe that it is not necessary to make any drastic changes. Furthermore, any changes should follow these principles:

- Keep Social Security's current structure based on payroll taxes.
- Preserve Social Security as a social insurance program for everyone who is eligible.
- Guarantee monthly benefits adjusted for inflation.
- Preserve Social Security to meet the needs of people who are eligible now and in the future.
- Restore Social Security's long-term financial stability.

Some of the specific questions that we will ask, and that we ask each Member of Congress to ask, about proposed changes include the following:

- *Does the proposed change ensure a benefit formula that does not force more people with disabilities into poverty?* A proposal to lower the Primary Insurance Amount (PIA) will cut both retirement and disability benefits because they are set by the same formula. Reducing the PIA will force more people with disabilities further into poverty. It is essential to set benefits at adequate levels.
- *Does the proposed change provide protection against inflation?* Social Security benefits are adjusted for inflation to protect their value. Reducing the COLA by even a small amount makes a big difference over time. Also, the current benefit formula is tied to the "wage index." Switching to a formula based on the "price index" would seriously reduce benefits and the standard-of-living for all future beneficiaries, especially over time. It is essential to maintain a benefits formula that provides adequate future income.
- *Does the proposed change protect disabled adult children and other family members with disabilities?* It is essential to provide adequate income for people with disabilities who depend on workers who retire, die, or become disabled. Private disability insurance is not the answer. Only about 28 percent of private sector workers had long-term disability insurance in 2003. Compared to Social Security, individually purchased private disability insurance generally is not adjusted for inflation, not designed to cover children of disabled workers, and not available to workers with disabilities and other health problems. For instance, private disability insurance would not be affordable for people who would receive DAC benefits.
- *Does the proposed change protect the disability insurance program from any pressure that would be caused if the retirement age were raised?* Raising the normal retirement age (NRA) would increase the number of older workers who would need to apply for disability benefits. Many manual laborers must stop working when they can no longer do physical labor and many would have to apply for disability benefits if they are not eligible for full retirement benefits at that time. It is essential to maintain the important roles of the disability and retirement insurance programs.

Individual Private Accounts

The nature of the OASDI programs as insurance against poverty is essential to the protection of people with disabilities. The programs are unique in providing benefits to multiple beneficiaries and across multiple generations under coverage earned by a single wage earner's contributions. Proposals that partially or fully

eliminate the current sharing of risk and replace it with the risks of private investment will be harmful to people with disabilities who must rely on the OASDI programs for life's essentials. Diversion of Social Security revenues to private investment accounts would shift the risks from the federal government, and the larger community of which we are all a part, back to the individual. This could have a devastating impact on people with disabilities and their families as they try to plan for the future. The basic safety nets of retirement, survivors, and disability insurance would be substantially limited and individuals, including those with limited decisionmaking capacity, would be at the mercy of fluctuations in the financial markets.

The more limited ability of beneficiaries with disabilities to work and to save for the future and the reality of their higher rates of poverty must be taken into consideration in any efforts to change the Social Security programs. We raise several issues that need to be addressed if a system of individual private accounts is contemplated. They include:

- *Does the proposal provide the same level of benefits?* There is no guarantee that people with private accounts will do better than (or even as well as) people who get fixed monthly Social Security benefits. In January 2001, the Government Accountability Office [GAO] studied several plans to change Social Security. Its report (GAO–01–35) concluded that, compared to the current program, people with disabilities would get much lower benefits under plans that would use payroll taxes to create individual private accounts. In addition, it found that disabled retired workers would find it more difficult than most non-disabled retired workers to replace lost benefits with other sources of income such as earnings.
- *Does the proposal provide adequate benefits at retirement age?* Upon reaching normal retirement age, disabled workers currently are switched from disability to retirement benefits. At this point, under a private accounts plan, disabled workers could find that they have very small private accounts because they were unable to contribute earnings and their investments did not grow. Further, if benefits are reduced for all beneficiaries, disabled workers who reach retirement age will have even less income. Many disabled adult children will have very small or no private accounts at retirement age since they have a lifelong limited ability to work and save for old age. There is also a potential issue regarding the level of benefits at normal retirement age for people who have received disability benefits. A new income "cliff" at retirement for disabled workers would be very harmful.
- *Does the proposal include protections if annuities and disability insurance must be purchased?* Some proposals may require people to buy an annuity or disability insurance. But when workers die, they may have spent their entire private account, leaving nothing for a disabled adult child or spouse. A typical annuity does not pass on to surviving dependents. Insurance companies typically do not index disability policies for inflation, unless that extra coverage is purchased, and do not cover family members as Social Security does. And generally, people with disabilities or other serious health conditions cannot buy private disability insurance.
- *Does the proposal minimize risk and address capacity to manage accounts?* The ability to manage private accounts to make a profit in the stock market requires education and money management skills. Many people are unable to make wise investment decisions. These concerns are even greater for people with cognitive impairments [such as mental retardation] or mental illness. Individual private accounts remove the shared-risk protection of social insurance. Such accounts would greatly increase the personal risk for millions of people, both with and without disabilities.

Beneficiary Impact Statement

The CCD Social Security Task Force is very concerned that the various proposals under consideration to include individual accounts in Social Security or otherwise make dramatic changes in Social Security do not fully comprehend the negative consequences that will result for people with disabilities—both workers who become disabled and their dependents and those beneficiaries who are disabled and receive their benefits on the account of a retired, disabled, or deceased worker parent or spouse. We strongly urge the Congress to require that it be provided with a comprehensive analysis of the impact each proposal will have on people who receive Social Security now and in the future. Just as with the required actuarial analysis, Congress should not act on any proposal that it does not fully understand—especially with regard to whom it helps and whom it hurts. There are many subpopulations of Social Security beneficiaries and it is essential that Congress understand how each will be affected by each plan it is considering. Therefore, we urge that

Congress request a beneficiary impact statement on every major proposal, or component of a proposal, under serious consideration. We urge Members of the Subcommittee to raise these issues in Social Security solvency discussions.

Possible Improvements to Social Security

The CCD Social Security Task Force has a number of recommendations for making improvements to the Social Security programs for people with disabilities. I will highlight some of these proposals here and we would be happy to work with the Subcommittee on these and others.

Social Security and Medicare Waiting Periods

Ways and Means Committee Chairman Thomas is reported to be interested in eliminating the 2-year waiting period for Medicare for people who become newly eligible for disability benefits under the Title II OASDI programs. This waiting period applies to most people receiving Title II disability benefits, including disabled workers and disabled adult children. It imposes true hardships on people who, by definition, are limited in their ability to earn, have been acknowledged to have very serious health problems, and who likely are in great need of medical coverage. They must resort to using any available resources to pay for medical care at a time when their future ability to earn and replenish those resources is in question. Many go without care that might have stabilized or even reversed their medical condition. We wholeheartedly agree with Chairman Thomas that it is time to eliminate the harsh Medicare waiting period. Such an effort has also been supported by many Democrats.

We also urge the Committee and Subcommittee to consider reducing or eliminating the 5-month waiting period for Social Security disability benefits. People who apply for disability benefits often do so after exhausting other alternatives, including attempting to continue working despite their disability. By the time they apply for Title II, having to wait another 5 months for benefits creates a huge burden and additional stress for people who are already struggling financially and with their health conditions, are no longer employed, and, in addition to themselves, often have a family to support.

Substantial Gainful Activity Level

We urge that the substantial gainful activity level be raised for people who are disabled. As indicated earlier, the SGA level for people who are disabled is $830/month, while the level for people who are blind is $1,380/month. We believe that there should be no distinction made between the two groups of individuals regarding their level of work effort and that the level for people who are disabled should be increased to $1,380/month.

Work Incentives: Overpayments

For the success of work incentive provisions, including the Ticket to Work program, to be realized, SSA must address its current inability to track wages and adjust benefit levels when working beneficiaries report earnings. As the system stands now, the chronic problem of overpayments to beneficiaries is a major barrier to efforts to assist beneficiaries in working or returning to work.

Overpayments, with the resulting letters from SSA stating that the beneficiary may owe SSA thousands of dollars in back benefits, are such a nightmare to many people that the potential for the existing work incentives in the Title II and SSI Programs is limited. CCD has recommended that SSA develop and establish a reliable, efficient, beneficiary-friendly method of collecting and recording information regarding a beneficiary's earnings and adjusting benefits appropriately in a timely manner. The system must stop punishing the beneficiary for SSA's inability to properly track and act upon the earnings information. SSA is working to develop systems to address this problem, but this remains a significant ongoing problem.

Work Incentives: Proposed Amendments To TTWWIIA

CCD also has a series of recommendations designed to improve the Ticket to Work program, so that it is able to function more effectively in serving Title II and SSI beneficiaries who wish to attempt to return to work. There are three key themes: the heath care provisions need to be strengthened; beneficiaries' access to vocational providers can be broadened by strengthening the Employment Network system; and beneficiaries need clearer assurances that, should their effort to work fail, they can return to benefit status expeditiously. While the improvements needed are modest, many require statutory changes. I will provide a detailed list of these recommendations to the Subcommittee staff.

Work Incentives for Young People

We also believe there are significant opportunities—requiring legislative changes—to improve the rules in Social Security, SSI and Medicaid so that young people with disabilities are encouraged to maximize their potential with the goal of working to the best of their ability as adults, allowing them to follow their dreams just like other young people. Currently, the programs' rules provide conflicting messages and sometimes require young people to risk current and future eligibility for key benefits they may need if they attempt to maximize their potential. This discourages or undermines their efforts (and those of their families and others) to maximize their potential. We would be happy to discuss these recommendations further with you and your staff.

Work Incentives for Disabled Adult Children

Another area requiring legislative action involves people who are severely disabled prior to age 22, but whose parents have not yet triggered their own Social Security benefits. Ultimately, these individuals might qualify as disabled adult children when their parents retire, die, or become disabled, if they have not worked above the SGA level. Others with the same level of impairment, who have already worked above the SGA level, will not qualify for DAC benefits, even if the work incentives provisions in the SSI Program encouraged such work. This is a disincentive for these individuals to work, especially since they are likely to be severely disabled for life and will need supports of the type available under the OASDI and Medicare programs. We urge the Subcommittee to consider provisions to eliminate the work disincentive for this group of people with severe disabilities.

Limitation on Administrative Expenses (LAE)

We urge the Subcommittee to work to secure the full LAE for SSA sought by President Bush for FY 2006. Improving the disability determination process, including reducing the backlog and processing times, must remain a high priority. We urge commitment of resources and personnel to resolve the exorbitant waiting times and make the process work better for people with disabilities. SSA must be provided with the resources to fully meet its administrative responsibilities. We support the President's budget request for FY 2006 for $9.403 billion for the Limitation on Administrative Expenses, an increase of just under 8 percent over the FY 2005 appropriation of $8.732 billion.

In addition, we urge this Subcommittee to work to separate SSA's Limitation on Administrative Expenses budget authority from the Section 302(a) and (b) allocations to the Appropriations Subcommittees. This would allow for growth that is necessary to meet the needs of the coming baby-boomer retirement years (including the retirement of SSA and state DDS personnel); continue the efforts to improve the processing time for initial applications and appeals, particularly through technological improvements; continue the efforts to ensure integrity in the program through continuing disability reviews (CDRs) and other redeterminations; permit SSA to better accomplish the post-entitlement work related to ensuring that SSA's systems support rather than discourage efforts to return to work (for example, through more timely actions on reports of earnings thereby reducing discouraging overpayments); and allow for replacement of staff in a timely manner and to provide for adequate training and mentoring. SSA's LAE would still be subject to the annual appropriations process and Congressional oversight. Currently, SSA's administrative expenses total less than 2% of benefit payments paid annually. Congress would still maintain its role in ensuring continued administrative efficiency.

When Congress decided to make SSA an independent agency in the mid-1990s, the Ways and Means Committee clearly stated its concerns about the state of SSA at that time.[1] Congress hoped that making SSA an independent agency would provide SSA with administrative stability and the ability to better anticipate and address current and future systems needs.

House Report No. 103–506, Ways and Means Committee, May 12, 1994, pp. 44–45.

The current Commissioner of Social Security, Jo Anne B. Barnhart, began her term in November 2001 and is making significant progress in such areas as insti-

[1] "Support for making SSA an independent agency is rooted in a marked decline in the agency's performance over the past 15 years. Several factors have contributed to this decline, including frequent turnover in agency personnel, multiple internal reorganizations, and increasing political intervention in the administration of the program."

"With respect to personnel, SSA has had 10 commissioners in the past 15 years, 4 of whom served only as acting commissioners and 6 of whom served less than 18 months. During this same period, the agency has undergone a series of reorganizations which have displaced personnel at all levels, creating repeated changes in responsibilities for program administration and policy development."

tuting technological improvements and changes in systems design to provide higher quality decisions earlier in the disability decision process. With the costs of the administration of this large independent agency representing a very small percentage of the benefits paid by SSA, it makes sense to ensure that SSA has whatever resources it needs to make timely and accurate decisions, to address post-entitlement issues and changes as they happen, and to meet the range of responsibilities it has that are not related to Social Security and Supplemental Security Income (SSI) benefits, such as issuance of Social Security numbers and Medicare issues.

This proposal has been under consideration for years. Given SSA's growing responsibilities—in Social Security, SSI, and Medicare—it is essential to breathe new life into this issue and get it resolved now. We urge the Social Security Subcommittee and the full Ways and Means Committee to press for resolution of this issue this year.

Observations on Current Administration Initiatives

SSA's Disability Demonstration Projects

SSA's disability demonstration projects in Title II and SSI are exciting, need time to work, and are likely to provide the Congress and SSA with important information about assisting people with disabilities who receive Title II and SSI to work.

The demonstration projects that SSA has underway or in the development process are designed to look at a range of issues related to disability and work. One of the demonstrations is the Congressionally mandated study to test the effects of allowing Title II beneficiaries to work without total loss of benefits by reducing their monthly benefit by $1 for every $2 the person earns above a specified level. As part of this work, SSA also is looking at whether there is a combination of services or supports that can assist beneficiaries in moving to work.[2] SSA is also working on demonstration projects related to youth with disabilities and projects designed to intervene earlier in the process to assist those who may be able to remain working, with adequate supports, such as health care coverage. This is very important work. It is essential that Congress not attempt to make changes that would negatively impact people with disabilities in Title II or SSI disability without the information that these demonstration projects will provide—too much is at stake for too many people with disabilities and their families to make mistakes in policy choices or decisions.

Improvements to the Disability Determination Process

For people with disabilities, it is critical that SSA improve its process for making disability determinations. We applaud Commissioner Barnhart for establishing as a high priority the administration's efforts to improve the disability determination process and for making the design process an open one.

The highlights of our disability determination process recommendations follow. We strongly support efforts to reduce unnecessary delays for claimants and to make the process more efficient, so long as they do not affect the fairness of the process to determine a claimant's entitlement to benefits. We strongly support efforts to implement the electronic disability folder, AeDIB, since it has great potential for improving the adjudication process and is critical to the success of any changes. We believe that SSA must maintain the independence and ensure the quality of medical experts, consultative examiners, and vocational experts. We recommend that there not be a separate appeal from the proposed Reviewing Official (RO) level to the administrative law judge level. The official record of the case should not be closed after the ALJ decision and the claimant should retain the right to submit new and material evidence after the ALJ decision. The Appeals Council should be retained and improved, or, in the alternative, its review functions should be carried out by some other entity within SSA. Further, the claimant's right to request review by the Appeals Council should be retained. Our complete comments to Commissioner Barnhart on her proposed revisions to the disability determination process are available for the record should the Members of the Subcommittee wish to see them.

SSA Work on Reviewing and Updating the Listing of Impairments

CCD applauds the manner in which SSA is going about reviewing the current listings. In many cases, this has involved issuance of an advance notice of proposed rulemaking, providing the public with the opportunity to comment to SSA on a current listing before SSA issues an NPRM. In addition, we believe that the public forums that SSA has held on certain listings, including mental impairments, immune

[2] For a detailed discussion of SSA's demonstrations projects, see Eileen P. Sweeney, *SSA's Disability Demonstration Projects Likely to Provide Important Information about Disability Work Incentives*, Center on Budget and Policy Priorities, August 2004, available at *http://www.cbpp.org/8-6-04socsec.htm*.

disorders, and chronic liver disease, will help to significantly improve the quality of the final provisions. These forums have served as an excellent source of cutting edge medical expertise for SSA.

Again, I thank the Subcommittee for considering our viewpoints on all of these critical issues. We stand ready to work with you and your staff regarding the concerns of people with disabilities.

ON BEHALF OF:
American Association of People with Disabilities
American Association on Mental Retardation
American Council of the Blind
American Foundation for the Blind
American Network of Community Options and Resources
Association of University Centers on Disabilities
Bazelon Center for Mental Health Law
Easter Seals
Epilepsy Foundation
National Alliance for the Mentally Ill
National Association of Councils on Developmental Disabilities
National Association of Protection and Advocacy Systems
National Organization of Social Security Claimants' Representatives
NISH
National Mental Health Association
National Multiple Sclerosis Society
Paralyzed Veterans of America
Research Institute for Independent Living
The Arc of the United States
Title II Community AIDS National Network
United Cerebral Palsy
United Spinal Association

Chairman MCCRERY. Thank you, Ms. Ford. Mr. Tanner with the Cato Institute, we appreciate you at the last moment being able to come and join us. We really appreciate your time. Thank you.

STATEMENT OF MICHAEL TANNER, DIRECTOR, CATO INSTITUTE PROJECT ON SOCIAL SECURITY CHOICE

Mr. TANNER. Well, thank you, Mr. Chairman. I wouldn't miss the opportunity to talk to you once again. I do thank you very much for the privilege of appearing here today, and for the opportunity to discuss how Social Security reform can benefit vulnerable populations. It, of course, is now generally acknowledged that Social Security is facing a severe future financing problem. The program will begin running deficits in just 12 years, and it is facing total unfunded obligations of roughly $12.8 trillion, if you include the cost of redeeming the trust fund. As a result, changes to the program are inevitable. In making these changes, however, it is particularly important that we consider their impact on the most vulnerable Americans who disproportionately depend on Social Security. It is also important to understand that it is not just reform that will affect these vulnerable Americans, but so too will a failure to reform the system. Since Social Security currently cannot pay the promised benefits, those benefits will eventually have to be reduced by roughly 26 percent, a reduction that will fall most heavily on those who can least afford it.

On the other hand, reform, properly structured, can not only protect the poor and vulnerable from these otherwise inevitable benefit cuts, but can actually produce an improved Social Security sys-

tem that will leave them better off. We can give low-income workers a chance to build real inheritable wealth. We can give them an ownership stake in the American economy. While maintaining a safety net, we can give them a chance to earn a higher rate of return, leading to higher retirement benefits that would lift millions of seniors out of poverty.

Now, Social Security has elements of both an insurance and a welfare program. It is, in effect, both a retirement and an anti-poverty program. In attempting to combine these two functions, it has ended up doing neither particularly well. While much more time has been spent discussing Social Security's shortcomings as a retirement program, far less attention has been paid to its inadequacies as an anti-poverty program. For example, despite receiving Social Security benefits, roughly 1 out of 10 seniors still lives in poverty. In fact, the poverty rate among seniors remains slightly higher than that for the adult population as a whole. Among some subgroups, the problem is far worse. The poverty rate is about 20 percent among elderly women who have never married or who are widowed; roughly 30 percent among divorced or separated women; African American seniors are disproportionately left in poverty, with nearly a third of African Americans over 65 having incomes below the poverty level.

In addition, lifetime Social Security benefits depend in part on longevity. As a result, people with identical earnings histories will receive different levels of benefits depending on how long they live. An individuals who lives to be 100 receives far more in benefits than someone who dies at 66. Therefore, those groups in our society with shorter life expectancies, such as the poor and African Americans, are put at a severe disadvantage. This disparity has a significant impact on the concentration of wealth in our society because Social Security benefits are not inheritable. A worker can pay Social Security taxes for 30 or 40 years, but if the worker dies without children under the age of 18 or a spouse over the age of 65, none of that money paid into the system is passed on to his heirs. As Cato Senior Fellow Jagadedesh Gokhale has noted, Social Security essentially forces low-income workers to annuitize their wealth, preventing them from making a bequest of that wealth to their heirs. This helps turn inheritance into a disequalizing force in America, leading to greater inequality of wealth. The wealthy are able to pass their wealth on to their heirs, while the poor cannot.

Properly constructed, a Social Security reform plan including personal accounts can solve these problems. The "Individual Social Security Investment Program Act of 2005" for example, introduced by your colleague Mr. Johnson, provides an excellent example of how this would work. Mr. Johnson's bill would allow younger workers to save and invest their half of the Social Security payroll tax, about 6.2 percent of wages, through personal accounts. Because workers would own the money in their accounts—which they do not under the current system—that money would be fully inheritable. If they die before retirement, they could pass all the money in their account on to their loved ones. Death after retirement would still leave substantial unused portions for their heirs.

It is not just future generations who would benefit from this ownership. Personal accounts would also give low-income workers a chance to build a nest egg of real wealth for the first time in their lives, giving them a real and personal stake in the economy. As Michael Sherraden of Washington University in St. Louis has shown, ownership can have significant beneficial impact on a variety of social pathologies, not only increasing work effort and the propensity to save, but even reducing crime, drug abuse, school drop-out rates, and illegitimacy. Giving people an ownership stake in America—something H.R. 530 with its recognition bonds does even more than other personal account plans—could be considered one of the most important anti-poverty proposals that we could undertake.

Finally, H.R. 530 would establish an enhanced safety net to protect the most vulnerable. It leaves current survivor and disability benefits unchanged. However, it also includes a new minimum Social Security benefit equal to 100 percent of the poverty level, a significant increase over today. Thus, under Mr. Johnson's bill, no eligible senior would ever again retire into poverty. Other personal account plans, including Mr. Ryan's, and to a lesser extent Mr. Shaw's, also represent a significant boost for low-income and otherwise vulnerable Americans.

In summation, Social Security reform is inevitable. If we simply fall back on the old ways of raising taxes and cutting benefits, we will significantly harm those most in need. If we do nothing, we end up with a benefit reduction that the poor and vulnerable can ill afford. However, by making personal accounts part of any Social Security reform, we can give low-income workers a chance to build a nest egg of real inheritable wealth. In combination with an enhanced safety net, we can provide vulnerable workers with a new and better Social Security system. Thank you.

[The prepared statement of Mr. Tanner follows:]

Statement of Michael Tanner, Director, Cato Institute Project on Social Security Choice

Mr. Chairman, Members of the Subcommittee:

I very much appreciate the privilege of appearing before you today, and the opportunity to discuss how Social Security reform can benefit vulnerable populations. It is now generally acknowledged that Social Security is facing severe future financing problems. The program will begin running deficits in just 12 years, and is facing total unfunded obligations of roughly $12.8 trillion (including the cost of redeeming the trust fund). As a result, changes in the program are inevitable.

In making these changes, however, it is particularly important that we consider their impact on the most vulnerable Americans who disproportionately depend on Social Security. For example, the poorest 20 percent of Americans receive nearly all of their retirement income from Social Security, while the wealthiest fifth of Americans receive less than 20 percent of their retirement income from the system. It is also important to understand that it is not just reform that will affect these vulnerable Americans, but so to will a failure to reform the system. Since Social Security currently cannot pay promised benefits, those benefits will eventually have to be reduced by roughly 26 percent, a reduction that will fall heaviest on those who can least afford it.

On the other hand, reform, properly structured, can not only protect the poor and vulnerable from these otherwise inevitable benefit cuts, but can actually produce an improved Social Security system that will leave them better off. We can give low income workers a chance to build real inheritable wealth. We can give them an ownership stake in the American economy. And, while maintaining a safety net, we can give them a chance to earn a higher rate of return, leading to higher retirement benefits that would lift millions of seniors out of poverty.

Social Security has elements of both an insurance and a welfare program. It is, in effect, both a retirement and an anti-poverty program. However, in attempting to combine these two functions, it has ended up doing neither particularly well. While much time has been spent discussing Social Security's shortcomings as a retirement program, far less attention has been paid to its inadequacies as an anti-poverty program.

There is no question that the poverty rate among the elderly has declined dramatically in the last half century. As recently as 1959, the poverty rate for seniors was 35.2 percent, more than double the 17 percent poverty rate for the general adult population. Today, it has declined to approximately around 10 percent.

Clearly Social Security has had a significant impact on this trend. Studies suggest that in the absence of Social Security benefits more than half of seniors would have income below the poverty level. This suggests that receipt of Social Security benefits lifted millions of seniors out of poverty. Moreover, the percentage of elderly in poverty after receiving Social Security benefits has been steadily declining in recent years, indicating the increased importance of Social Security as an anti-poverty remedy.

However, there is a superficiality to this line of analysis. It assumes that any loss of Social Security benefits would not be offset through other sources of income. In other words, it simply takes a retiree's current income and subtracts Social Security benefits to discover, no surprise, that the total income is now lower and, indeed, frequently low enough to throw the retiree into poverty.

That much should be obvious. Social Security benefits are a substantial component of most retirees' income. It constitutes more than 90 percent of retirement income for one-quarter of the elderly. Nearly half of retirees receive at least half of their income from Social Security. The question, therefore, is not whether the sudden elimination of Social Security income would leave retirees worse off—clearly it would—but whether in the absence of Social Security (or an alternative mandatory savings program) retirees would have changed their behavior to provide other sources of income for their own retirement.

However, even taking the idea of Social Security as an anti-poverty tool on its own terms, the evidence suggests that the current Social Security is inadequate. After all, despite receiving Social Security benefits, roughly one out of ten seniors still lives in poverty. In fact, the poverty rate among seniors remains slightly higher than that for the adult population as a whole. And, among some subgroups the problem is far worse. For the poverty rate is over 20 percent among elderly women who are never married or widowed and roughly 30 percent among divorced or separated women. African-American seniors are also disproportionately left in poverty. Nearly a third of African-Americans over the age of 65 have incomes below the poverty level.

In addition, lifetime Social Security benefits depend, in part, on longevity. As a result, people with identical earnings histories will receive different levels of benefits depending on how long they live. Individuals who live to be 100 receive far more in benefits than individuals who die at 66. Therefore, those groups in our society with shorter life expectancies, such as the poor and African-Americans, are put at a severe disadvantage.

Of course, Social Security does have a progressive benefit formula, whereby low-income individuals receive proportionately higher benefits per dollar paid into the system than do high-income workers. The question, therefore is to what degree shorter life expectancies offset this progressivity.

Using income as the sole criteria, the literature is mixed. Some studies, such as those by Eugene Steuerle and Jan Bakja of the Urban Institute and Dean Leimer of the Social Security Administration conclude that shorter life expectancies diminish but do not completely offset Social Security's progressivity. However, there is a growing body of literature, including studies by Daniel Garrett of Stanford University, the RAND corporation, Jeffrey Liebman, and others that show the progressive benefit formula is completely offset, resulting in redistribution from poor people to wealthy.

The question of Social Security's unfairness to ethnic minorities appears more straightforward, particularly in the case of African-Americans. At all income levels and all ages, African-Americans have shorter life expectancies than do whites. As a result, a black man or woman, earning exactly the same lifetime wages, and paying exactly the same lifetime Social Security taxes, as his or her white counterpart, will likely receive far less in lifetime Social Security benefits.

This disparity has a significant impact on the concentration of wealth in our society. Social Security benefits are not inheritable. A worker can pay Social Security taxes for 30 or 40 years, but if that worker dies without children under the age of 18 or a spouse over the age of 65, none of the money paid into the system is passed

on to his heirs. As Cato Senior Fellow Jagadedesh Gokhale, has noted, Social Security essentially forces low-income workers to annuitize their wealth, preventing them from making a bequest of that wealth to their heirs.

Moreover, because this forced annuitization applies to a larger portion of the wealth of low income workers than high income workers, it turns inheritance into a "disequalizing force," leading to greater inequality of wealth in America. The wealthy are able to bequeath their wealth to their heirs, while the poor cannot. Indeed, Gokhale and Boston University economist Laurence Kotlikoff estimate that Social Security doubles the share of wealth owned by the richest one percent of Americans.

Martin Feldstein of Harvard University reaches a similar conclusion. Feldstein suggests that low-income workers substitute "Social Security wealth" in the form of promised future Social Security benefits for other forms of savings. As a result, a greater proportion of a high-income worker's wealth is in fungible assets. Since fungible wealth is inheritable, while Social Security wealth is not, this has led to a stable concentration of fungible wealth among a small proportion of the population. Feldstein's work suggests that the concentration of wealth in the United States would be reduced by as much as half if low-income workers were able to substitute real wealth for Social Security wealth.

Properly constructed, a Social Security reform plan including personal accounts can solve these problems. HR 530, introduced by your colleague Mr. Johnson, provides an excellent example of how this would work. Mr. Johnson's bill would allow younger workers to save and invest their half of the Social Security payroll tax (6.2 percent of wages) through personal accounts. Because workers would own the money in their accounts—which they do not under the current system—that money would be fully inheritable. If they die before retirement prematurely, they would be able to pass all the money in their account on to their loved ones; death after retirement would still leave substantial unused portions for their heirs.

And, it is not just future generations who would benefit from this ownership. Personal accounts would give low-income workers a chance to build a nest egg of real wealth for the first time in their lives, giving them a real and personal stake in the economy. As Michael Sherraden of Washington University in St. Louis has shown, ownership can have significant beneficial impact on a variety of social pathologies, not only increasing work effort and the propensity to save, but even reducing crime, drug abuse, school drop out rates, and illegitimacy. Giving people an ownership stake in America—something that HR 530, with its recognition bonds does even more than other personal account plans—could be considered one of the most important anti-poverty proposals we could undertake.

Finally, H.R. 530 would also establish an enhanced safety net to protect the most vulnerable. It leaves current survivor and disability benefits unchanged. However, it also includes a new minimum Social Security benefit equal to 100 percent of the poverty level, a significant increase over today. Thus, under Mr. Johnson's bill, no eligible senior would ever again retire into poverty.

Other personal account plans, including Mr. Ryan's and to a lesser extent Mr. Shaw's, would also represent a significant boost for low income and otherwise vulnerable Americans.

In summation, Social Security reform is inevitable. If we simply fall back on the old ways of raising taxes and cutting benefits, we will significantly harm those most at need. If we do nothing, we end up with a benefit reduction that the poor and vulnerable can ill afford. However, by making personal accounts part of any Social Security reform, we can give low-income workers a chance to build a nest egg of real inheritable wealth. In combination with an enhanced safety net, we can provide vulnerable workers with a new and better Social Security system.

Thank you.

Chairman MCCRERY. Thank you, Mr. Tanner. Again, thank you for coming on such short notice. Dr. Rockeymoore?

STATEMENT OF MAYA ROCKEYMOORE, PH.D., VICE PRESIDENT OF RESEARCH AND PROGRAMS, DIRECTOR, CENTER FOR POLICY ANALYSIS AND RESEARCH, CONGRESSIONAL BLACK CAUCUS FOUNDATION, INC.

Ms. ROCKEYMOORE. Chairman McCrery, Ranking Member Levin, I am pleased to be here before you to talk about an issue

that is very important to all American workers, but especially important to vulnerable populations in the United States. Social Security has been an anti-poverty and retirement program that is a comprehensive family values program, not only covering retirement, but also disability and survivor benefits. So, as that, Social Security is a valuable program that would be unaffordable for most American workers on the private market. It is important that we realize that.

Social Security's retirement benefits are also, of course, for a lifetime. When you retire, you don't have to worry about outliving your private savings because you know that Social Security will be there for you as long as you live. It is a steady benefit. You don't have to worry about how the stock market is performing. You know what that benefit will be on a month-to-month basis, and you know that it is inflation adjusted for a lifetime. When we are talking about specific populations of vulnerable people, we have to understand that we are talking about primarily women and their children. Women and their children are the majority of individuals drawing down on Social Security's retirement benefit. We have a situation where women are historically low lifetime earners and, as a result, are disproportionately reliant on the progressivity of the Social Security program. It is important to realize that.

The same situation with African Americans. African Americans are generally lower income earners, and I would just like to address something that Mr. Tanner said. He suggested that Social Security helps prevent wealth creation in these low-income populations. I would suggest to you that it is not Social Security that is creating that inability to create wealth.

Just for your information, I am only the third generation from slavery on my mother's side. We had a situation in this country where we had a whole population group who did not have the ability to accumulate wealth by law. Even after that particular advent in history, we had Jim Crow, where people who tried to accumulate wealth who looked like me, their assets were confiscated at the whim of those who were in the majority at that time. So, we had a situation where many people that look like me—women, African Americans, Hispanics—this is all they have, Social Security is all they have because of this historical discrimination in our country. So, it is not Social Security that is creating that lack of opportunity. It is Social Security that is giving them a leg up, and we don't need to erode those protections for these vulnerable populations.

When you look at children, you have to understand that Social Security is a vital benefit for children, with more than four million children who are drawing down on Social Security benefits currently. If you look at the populations within those children, you understand, for example, that African American and Hispanic children rely disproportionately on survivor benefits. So, it is key to understand that. Now, what will privatization mean for these vulnerable populations? Ladies and gentlemen, the President has indicated that Social Security is in crisis. I will have you know that it is privatization that is a crisis for these vulnerable populations in our country, and I will tell you why. Privatization erodes the value of Social Security over time, and it is not in 2041 when we talk

about a 26-percent benefit cut. It is earlier than that. When you are talking about a mandatory sliding-scale benefit cut, you are talking about deep benefit cuts that will affect vulnerable populations across the board, anywhere from a 21- to 66-percent benefit cut, and that is more immediate than the year 2041. This is to be done by a deliberate policy of benefit cuts called mandatory sliding-scale benefit cuts.

Not only does it erode the value through these benefit cuts, when you select—when an individual worker selects a private individual retirement account, there is an added benefit cut on top of that. So, you are talking about twice the erosion that goes on when you add on the individual account. So, what does that mean? You have a situation where you have less security and more risk for people in the future, and this risk impacts survivors, poor children; it impacts disabled people. We need to be concerned.

Just so that you know, when you combine the benefit cuts, the sliding-scale benefit cuts, also known as progressive price indexing, with the impact of private accounts, you understand that for a median earner, somebody that is only making $36,000 a year—perhaps your own legislative assistant—it would have a benefit cut of 66 percent—66 percent—in the year 2055. This is unconscionable. We cannot go backward in this country. We have to truly protect Social Security. Thank you.

[The prepared statement of Dr. Rockeymoore follows:]

Statement of Maya Rockeymoore, Ph.D. Vice President of Research and Programs, and Director, Center for Policy Analysis and Research, Congressional Black Caucus Foundation

Chairman McCrery, Ranking Member Levin and Members of the Committee:

Thank you for inviting me to appear before you today to talk about a program that is very important to me, my family, my community, and to Americans everywhere. I am especially pleased to bring testimony before the very Subcommittee I worked for in the late 1990s.

Serving as professional staff on the Ways and Means Social Security Subcommittee, it was my job to understand and explain Social Security's vital importance to vulnerable populations such as children, women, the disabled, racial and ethnic minorities, senior citizens, and low to middle income families.

At that time, like today, it was very apparent that Social Security has done a remarkable job of protecting these populations against the often devastating uncertainties of life that, were it not for the stable economic support provided by the program, would throw many families into economic chaos—shattering well-being, hopes, and dreams in the process.

You see, Social Security is one of America's true family values programs. Through comprehensive old age, disability and survivor insurance benefits, Social Security binds families across generations by ensuring that no working American is left without the means to help feed, clothe, and shelter his or her family when faced with the unpredictability of death, old age, and/or a disabling condition.

Additionally, Social Security weaves individuals and families together into a community of citizens reliant on its organizing principle of "using the common wealth for the common good." This principle is evident in the program's efficient social insurance structure that provides valuable benefits that would be unaffordable for most working Americans and their families in the private market.

Yet, despite clear evidence of Social Security's success in lifting millions of Americans out of poverty over its 70 years of operation, today the program is threatened by those who seek to undermine its family and community oriented benefit structure by introducing private individual retirement accounts that siphon funds away from the system while providing less security and more risk, less efficiency and more cost to American workers.

Shockingly, these proposed changes come at a time when Americans—especially vulnerable populations—need Social Security's steady, defined benefit structure more than ever. The globalization of U.S. corporate enterprise, the under-funding

and disappearance of employer-sponsored defined-benefit pensions, the prevalence of private savings vehicles exposed to an uncertain stock market, the weight of burgeoning federal budget deficits, and the vagaries of a volatile global economy are all factors that would expose America's working families to economic disaster should Social Security be privatized.

Social Security's Importance to Vulnerable Populations

Social Security is important to the general U.S. population but its comprehensive benefits are extremely critical to the socioeconomic well-being of vulnerable populations such as women and children, senior citizens, the disabled, racial and ethnic minorities, and low, moderate, and middle income families.

Social Security's progressive benefits provide favorable treatment for lower income workers by replacing a larger percentage of their pre-retirement wages. Social Security comprehensive benefits make life, disability, and old age insurance affordable for working families when compared to the private market. Social Security retirement benefits provide an inflation-adjusted, monthly benefit that will not run out for as long as you live. And, Social Security benefits provide families with a steady source of income that is sure to be there during times of rain or sunshine.

While the receipt of survivor, disability, and/or old-age benefits is often dependent on several interrelated factors such as workforce participation, income, health status, family composition, and life expectancy, it is the common condition of economic vulnerability that determines the heavier reliance of vulnerable populations on Social Security.

Consider the specific impact these factors have on defined populations receiving Social Security:

Low, Moderate, and Middle Income Workers

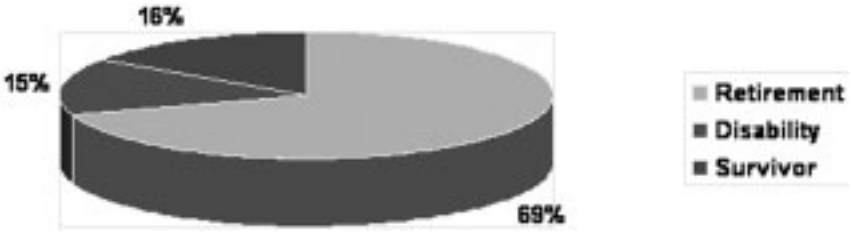
Low, moderate, and middle-income workers tend to face greater challenges across a variety of key socioeconomic indicators due to their status in the U.S. labor market. It is these workers who are more likely to work grueling hours for low wages, be unemployed, underemployed, and without health insurance and other economic supports. As a result, these workers face extenuating circumstances that greatly increase their reliance on Social Security's disability, survivor and retirement benefits.

The Elderly

It is Social Security's positive impact on the socioeconomic condition of the aged population that has been the crowning achievement of Franklin Delano Roosevelt's New Deal vision. In 2000, the poverty rate among seniors was 10 percent, down from a rate of 35 percent in 1959. Today, the vast majority (69 percent) of Social Security beneficiaries draw down on its retirement benefits.

DISTRIBUTION OF SOCIAL SECURITY BENEFICIARIES BY BENEFIT TYPE

(Computed from the Social Security Administration Annual Statistical Supplement, 2003)



Social Security is the only source of income upon retirement for 22 percent of Americans (SSA 2004). Without Social Security, the poverty rate among the elderly would be 48 percent.

Racial and Ethnic Minorities

Because of historical patterns of discrimination in the U.S. education system, immigration laws, and labor market, African Americans and Hispanics are more likely to earn a modest living during the course of their working lives, less likely to have family wealth upon which to build, more likely to have experienced spells of unemployment or underemployment, and more likely to retire with less income from pri-

vate pensions, assets or personal savings. For African Americans, a disproportionate lack of access to quality, affordable healthcare—also rooted in education, employment and income inequities—contributes to their higher rates of disability and early death.

Given these variable life circumstances, it is easy to understand why racial and ethnic minorities use Social Security in very different ways.

Percent of Americans receiving OASDI, by type of benefit and race

Figure 1 Blacks

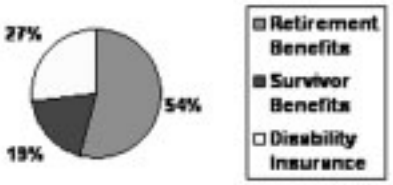


Figure 2 Whites

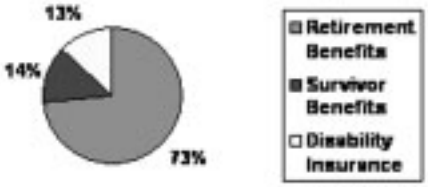
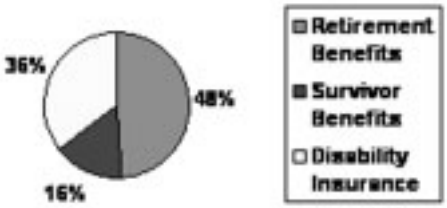


Figure 3 Other*



Social Security Administration, Annual Statistical Supplement 2003, Table 5.A1, "Number and average monthly benefit, by type of benefit and race, December 2002."

* "Other" includes people of Hispanic Origin, Asian/Pacific Islanders, Alaskan Natives, and American Indians.

While the vast majority of whites (73%) tend to rely on Social Security for its retirement benefits, African Americans and other people of color are more heavily dependent upon Social Security's disability and survivor benefits. Indeed, a full 46 percent of African American beneficiaries and 52 percent of other racial and ethnic minorities rely on Social Security for its non-retirement insurance features.

Social Security's benefits are extremely important source of economic support for African American and Hispanic families who experience the crisis of disability or unexpected death. An estimated 68 percent of disabled African Americans are kept out of poverty by Social Security's disability benefits.[1] Additionally, a 1999 study by the National Urban League Institute for Opportunity and Equality estimated that African American children are almost four times more likely to be lifted out of poverty by Social Security survivor benefits than are white children.[2]

And, even though a greater proportion of whites rely on Social Security's old age insurance, these benefits remain extremely important for African American and Hispanic retirees, who tend to have lower pre-retirement earnings (a primary factor in benefit calculations) and less pension coverage than white Americans. As a result, Social Security is the only source of retirement income for 40 percent of older African Americans and 41 percent of elderly Hispanics.[3] Without Social Security, the poverty rate for African American seniors would more than double from 22 percent

[1] Social Security Administration, Fast Facts & Figures About Social Security, 2001.

[2] Valerie Rawlston, "The Impact of Social Security on Child Poverty," A special report issued by the National Urban League Research and Public Policy Department, May, 2000.

[3] Social Security Administration, "Press Office Fact Sheets: African Americans and Social Security," September, 2004.

to 57 percent.[4] The poverty rate among Hispanic seniors would rise from 22 percent to 33 percent.[5]

African Americans and Hispanics, who are disproportionately lower income workers, also benefit from Social Security's progressive benefit structure, which replaces a larger percentage of low-income beneficiaries pre-retirement earnings as compared to higher income beneficiaries. Combined with an annual cost of living adjustment that keeps Social Security benefits on par with inflation, the value of Social Security's steady and stable benefits are great for people of color.

Women

As the majority of beneficiaries, women have special circumstances that dictate their reliance on Social Security. Specifically, women live longer than men but earn lower lifetime wages and have the less access to private pensions and other assets. As a result, they are the most likely to be reliant on Social Security's benefits for all or most of their income upon retirement.

- Social Security comprises 52 percent of the total retirement income for unmarried women age 65 and older (compared to 38 percent for elderly men) and is the only source of retirement income for 29 percent of unmarried elderly women.[6]
- For nearly 6 in 10 women of color, Social Security provides 90% or more of retirement income (SSA, 2002).
- In comparison, SS provides 90% or more of retirement income for approximately 4 in 10 white women (SSA, 2002).

Women of color have an even greater dependence on Social Security's retirement benefit. Indeed, the Social Security Administration reports that Social Security provides half or more of total retirement income for over 80 percent of Black and Hispanic women. The income provided by these retirement benefits are critical because these women are the least likely to have added income from private pensions, investments and savings.

Children

Children currently benefit from Social Security either as the orphaned survivor of a worker who has passed away, the dependent of a caretaker who has a disability and is unable to work, or the dependent of a retired worker. According to the Social Security Administration's Master Beneficiary Record, there were almost 4 million children receiving total monthly benefits amounting to roughly $1.8 billion in November 2004. These children are the most vulnerable to economic calamity when faced with the loss of support from their caretakers, yet insurance benefits provided by Social Security step in to provide them with steady monthly benefits that help meet vital expenses such as the provision of clothes, food, and shelter.

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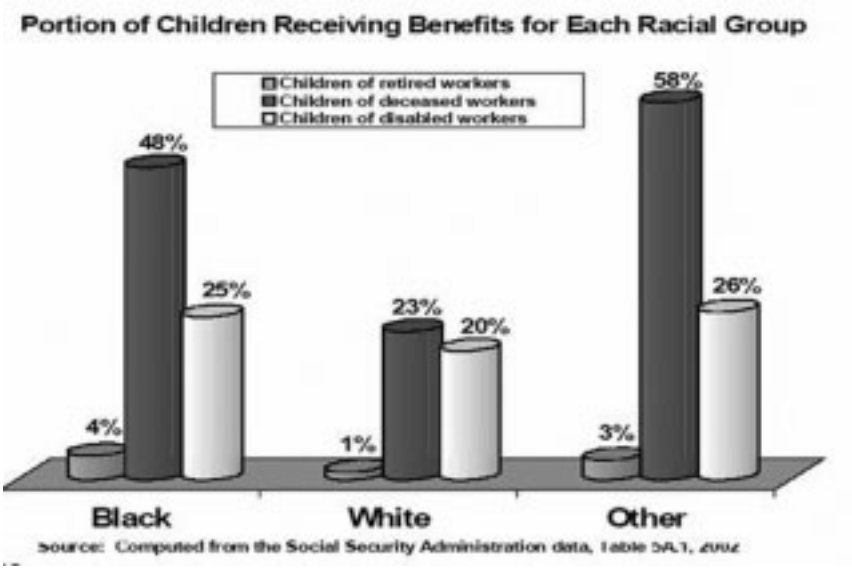
[4] Laurel Beedon and Ke Bin Wu, "Social Security and African Americans: Some Facts," AARP, September 2003.

[5] Laurel Beedon and Ke Bin Wu, "Social Security and Hispanics: Some Facts," AARP, September 2003.

[6] www.ssa.gov/pressoffice/factsheets/women-alt.htm



Due to the higher death rates of people of color, Social Security's survivor benefits are very important to these children.

The Macro and Micro Impacts of Social Security

To fully comprehend the importance of Social Security to vulnerable populations, one must imagine how these groups and our country would fare if Social Security did not exist. If the U.S. did not have Social Security:

- Poverty rates among the elderly, disabled, and surviving dependents would more than double.
- Disabled workers would be unable to provide for themselves or their family members and would be less likely to rehabilitate sufficiently to return to work.
- Young orphaned children would be forced to work at earlier ages and/or rely on charity assistance to make ends meet. This would jeopardize their ability to seek and receive a marketable education.
- Elderly people who outlived their usefulness in the labor market and have no friends or family to take them in would be at the mercy of charity assistance. Many would fall through the cracks.
- Younger moderate and middle-income workers would experience a lower standard of living as they assumed the full responsibility for caring for their aging relatives.
- The economic situation of these younger workers would be stretched so thin, that if they themselves experienced unemployment, disability or some other unanticipated situation, they would be thrown into poverty.
- The homeless population would multiply.
- Crime, sickness and other social ills would fester.
- State and federal governments would cut essential services and be deeply in debt in an effort to meet the steep costs of paying for means tested economic relief programs.
- More taxpayer money would be on the hook for these welfare programs.
- The U.S. economy would suffer from a surfeit of under-productive human capital and the absence of Social Security revenue as an economic stimulus.
- There would be wild swings in the living standards of working and middle income Americans without a buffer to protect them from changes in the stock market and U.S. economy.
- Most U.S. workers would lack a secure base from which to build wealth as they would be under-insured and over-exposed to life's various risks.
- Most able-bodied U.S. workers would be unable to retire.

The full value of Social Security, in terms of its macro and micro economic impacts, are often misunderstood or under-appreciated by the public and policymakers

alike. Nevertheless, the program has distinct advantages that continue to make it an invaluable resource for the nation.

The Privatization Crisis

The steep benefit cuts and high costs of the President's preferred privatization proposal make one thing very clear: that it is privatization—not Social Security—that is the crisis for American families. If our Nation's policymakers are truly dedicated to supporting U.S. workers, they must commit to the principle of "first, do no harm" when it comes to finding ways to strengthen Social Security's solvency. Unfortunately, the President's recently introduced a sliding scale benefit reduction plan (also known as "progressive price indexing") and his proposal for private retirement accounts violate this principle as these initiatives would cause irreparable harm to Social Security and the populations that heavily rely on its benefits.

At a time when the nation should be focused on shoring up Social Security's long-term ability to protect U.S. workers against growing risks that threaten to undermine the retirement security of all working, middle, and professional class Americans (e.g. insolvent private pension plans, unsteady global markets, and so forth.), the President introduces a mandatory sliding scale benefit reduction plan that offers less protection to these workers and has the following negative impacts:

- *Cuts targeting those making $20,000 or more per year.* Workers making at or near $20K per year are not "middle class" but the "near poor." It is these workers who are least likely to have private assets to help mitigate the impact of reduced Social Security benefits. These workers are also more likely to experience hardships such as food insecurity, housing challenges, and inadequate health care. Adding benefit cuts to this list of travails would further imperil their living standards.
- *Cuts that put the squeeze on the middle class.* Ironically, real middle class workers get an even worse deal out of the President's plan. According to an analysis conducted by Christian Weller at the Center for American Progress, middle class families would face larger benefit cuts under the President's plan, even if nothing were done to shore up Social Security's long term shortfall.[7] While there is a standard misconception that middle class families have more private resources to offset these cuts, the reality is that many are deeply in debt and only a paycheck or two away from poverty.[8] Thus, benefit cuts would have a deep and lasting effect on the economic prospects of these families.
- *Cuts for orphaned children, widow(er)s, divorcees, and the disabled.* The Center on Budget and Policy Priorities conducted an analyses showing that sliding scale benefit cuts would have an adverse impact on low-income orphaned children whose deceased parent(s) made above $20K, elderly low-income widows whose husbands made above $20K, and low-income divorced spouses whose husbands made in excess of $20K per year.[9] While each of these population groups are vulnerable, perhaps the most devastating of all is the case of an orphaned child under the age 19 who is least able to fend for his or herself when a breadwinner dies. These children would have less income support needed to ensure that they receive proper support for their educational, food, clothing and shelter needs.

The President's plan to introduce private retirement accounts on top of mandatory sliding scale benefit cuts further violates the principle of "first, do no harm" by introducing the inherent risks of the stock market into the Social Security equation. How does privatization harm the stability of Social Security and vulnerable populations?

- *Diverting funds to private accounts worsens Social Security's long-term funding problem.* After bringing national attention to the need to close Social Security's long term financing gap, the President's proposals fail to pass this critical test. Indeed, it is estimated that the combined effects of the President's sliding scale and private account plans would only serve to close 30 percent of Social Security's long-term shortfall while speeding up the date of the trust fund's "exhaustion" by eleven years.[10]

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[7] Christian Weller, "Comparing Apples to Apples: How President Bush's Middle-Class Benefit Cuts Compare to Social Security," Center for American Progress, May 10, 2005.

[8] The Drum Major Institute, "The Middle Class Squeeze: An Overview," April 11, 2005.

[9] Jason Furman, "New White House Document Shows Many Low-Income Beneficiaries Would Face Social Security Benefit Cuts Under President's Plan," Center on Budget and Policy Priorities, May 10, 2005.

[10] Jason Furman, "The Impact of the President's Proposal on Social Security Solvency and the Budget," Center on Budget and Policy Priorities, May 10, 2005.

- *Places Retirement Security in Jeopardy.* Financial planners have traditionally advised workers to invoke the classic "three-legged retirement stool" (comprised of private pensions, private savings and Social Security) when planning for retirement. Because private pensions and private savings are increasingly exposed to the risks of the stock market through defined contribution plans, Social Security's stable defined benefit becomes even more important. Yet, if a portion of Social Security was to be turned into a defined contribution plan as the President desires, the retirement stool will likely collapse taking America's retirement savings with it. This collapse would have a profound impact on moderate to middle income workers who would be heavily reliant on their retirement income.
- *Limits a worker's ability to plan for retirement.* The uncertainty of the stock market compromises a worker's ability to plan for retirement. Without Social Security's adequate, guaranteed base of economic support around which to plan, worker's would be left without a guidepost to calculate their expected retirement income. This level of uncertainty would overwhelm those who face the possibility of outliving their retirement savings and/or not earning enough to cover their basic living expenses. These concerns are multiplied for women who are most likely to serve as care givers for family members even upon retirement.
- *Penalizes Workers Vulnerable in the Labor Market.* The anti-progressive nature of private accounts also poses a threat to low-income workers, women, and racial and ethnic minorities. To the extent that these populations have higher unemployment rates (whether due to an inability to find work or deliberate time spent out of the labor force caring for family), their individual accounts (unlike Social Security) would fail to offset the negative financial implications of these labor market differences. Even in a healthy stock market environment, therefore, these populations would receive less from an individual account because they earn less and are more likely to have longer periods without making account contributions. Unfortunately, they would be further penalized because they will not have adequate Social Security benefits to rely upon as a fail-safe. Sliding scale benefit cuts would eliminate their economic security upon retirement, in the event of disability, and/or when faced with the loss of a breadwinner. Thus, the economic consequences of privatization would be especially horrific for these most vulnerable populations.
- *Undermines child survivor and disability insurance benefits.* Under a system of individual accounts, workers who die at a young age will be unlikely to have enough funds accumulated in their accounts to offset the deep reductions in Social Security's guaranteed benefits resulting from the mandatory sliding scale benefit cuts. As a result, young child survivors, who are the least able to fend for themselves, and disabled workers and their dependents are likely to face the possibility of extreme poverty under the President's plan.
- And, of course, the exorbitant cost of private retirement accounts means that vulnerable populations would be paying more for a privatized system that gives them less value than Social Security provides. All of the factors outlined above are unconscionable and provide a clear rationale for why American workers should reject the President's plan.

Real Proposals for Strengthening Social Security

Perhaps one of the most misleading aspects of the entire Social Security debate is that neither private retirement accounts nor deep benefit cuts are necessary in order to bring Social Security's long term funding shortfall into balance. Another unfortunate aspect of the current debate is that we may be missing an opportunity to truly address some of the programmatic elements that would enhance Social Security's protections for current and future generations of American workers. What are some of these protections?

- Making modest adjustments in order to restore the program's solvency.
- Restoring Social Security's student benefit.
- Equalizing outcomes across populations in the disability insurance application process.
- Offsetting the negative impact of the Government Pension Offset.
- Strengthening Social Security benefits for low-income workers.

Conclusion

In conclusion, it can be said that Franklin Delano Roosevelt's vision of a New Deal for American workers has withstood the test of time precisely because the philosophical underpinnings of the program remain as relevant today as in yesteryear. Created in the aftermath of the Great Depression, one of the primary reasons Roo-

sevelt established the program was to protect American workers and the U.S. economy against the vagaries of an inherently unstable stock market.

Then, as now, Social Security was seen by a majority of the American people as a vital benefit that would afford them a measure of dignity and respect should they face the risks of old age, disability, or death.

As we meet at the current crossroads of U.S. politics, it is important that politics does not get in the way of formulating good and decent policy. Good and decent policy in this case is protecting and strengthening the Social Security system so that current and future generations of workers will be able to avail themselves of its important insurance benefits. The time has come for prudent policymakers to come together to address how responsible adjustments can be made to extend the solvency of Social Security.

Chairman MCCRERY. Thank you, Dr. Rockeymoore. Ms. Campbell?

STATEMENT OF NANCY DUFF CAMPBELL, CO-PRESIDENT, NATIONAL WOMEN'S LAW CENTER

Ms. CAMPBELL. Hard act to follow. Thank you, Mr. Chairman. The Subcommittee has recognized in convening this hearing that women are even more reliant on Social Security than men, and are among the most vulnerable of its beneficiaries because they have lower earnings, spend more time out of the labor force for caregiving, and have smaller pensions and savings, but live longer than men. In fact, Social Security looks very different from a woman's perspective. For men, Social Security looks like a worker retirement program. Eighty percent of male beneficiaries get benefits solely as retired workers. For women, Social Security is a family insurance program. Only 33 percent of women receive benefits solely as retired workers, but 55 percent of women receive benefits, at least in part, as a spouse or former spouse of a retired, disabled, or deceased worker. These women and the 8 percent of beneficiaries who are children receive Social Security benefits as family members.

In the future, because more women are working in the paid labor force, more women will qualify for benefits on their own work records. In many ways, the future does not look that different from today. In fact, the Social Security actuaries project that 40 years from now, about 40 percent of women 65 and older will still be receiving benefits as a spouse or a widow. My written testimony addresses the harmful impact of private account proposals on women workers. I want to focus here on the impact of these proposals on the family members, who are the other half of Social Security beneficiaries, who are too often overlooked in these discussions—although I should say not today—and are overwhelmingly women and children. The impact on these beneficiaries is less transparent but just as, if not more, harmful.

For example, under the Administration's proposal, most beneficiaries will be subject to two benefit cuts—one to achieve partial solvency, and one to pay back with interest the payroll taxes shifted from Social Security into private accounts. The first sliding-scale benefit cut affects not only worker retirement benefits but benefits for family members—in total, 70 percent or more of future retirees. My written testimony details the particularly detrimental effect this cut has on surviving children and widows, even those with

earnings under $20,000. These cuts apply whether or not a worker chooses to contribute to a private account and they grow deeper over time, so, today's young workers and their families face the deepest cuts.

The effect of the second benefit cut on family benefits is less transparent. The concept is that a worker who opts for a private account would get that account in exchange for a reduction in traditional Social Security retirement benefits plus an interest charge set at some percent above inflation. My written testimony illustrates why accounts under the President's plan may not yield enough to offset even this particular benefit cut. If they do, the worker has at least made up that loss.

Social Security benefits for spouses and widows are based on the worker's benefit, so, when the worker benefit is cut because the worker chooses a private account, benefits for spouses and survivors would derivatively be cut as well. The proposal does not guarantee that a spouse or a widow receive anything from the worker's private account.

The President has said that workers could leave an account to anyone, so, a widow might not inherit the account. The President has said that workers would be required to purchase an annuity to assure they do not end up poor. He has not said that married workers would be required to purchase an annuity that provides a benefit to the surviving spouse. So, wives and widows may end up paying for a spouse's choice of an account with further reductions in their own Social Security benefits even though they get nothing from the account.

Why is there so little discussion of these issues? Social Security can provide spousal and other family benefits in addition to worker's benefits. Private accounts represent a fixed pool of assets. It is extremely difficult to amass enough in that account, as my written testimony shows, to provide adequately for one worker, much less for a worker, a spouse, and any children. My testimony assumes an account that had not been divided by a prior divorce, in which case the account would be even lower. My written testimony also talks about the adverse impact of this double dose of benefit cuts on young widowed mothers and spouses caring for children of disabled or retired workers. These are especially important benefits, and any proposal must carefully evaluate them.

Finally, as harsh as these benefit cuts are, they do not resolve the 75-year shortfall in Social Security, and they resolve none of the increase in that shortfall created by the private account portion of the Administration's proposal. Since the President has said any plan must address solvency and has ruled out tax increases to do so, it appears his fully developed plan is likely to include still more benefit cuts. I urge the Committee to reject this approach and to consider alternative ways that Social Security could be preserved and strengthened, especially for low-income women, and I describe some of these in my full testimony. Thank you.

[The prepared statement of Ms. Campbell follows:]

Statement of Nancy Duff Campbell, Co-President, National Women's Law Center

Chairman McCrery, Ranking Member Levin, and members of the Subcommittee, thank you for this opportunity to testify on behalf of the National Women's Law Center.

As Co-President of the National Women's Law Center, I have worked for three decades to protect and strengthen Social Security for women. I organized the first Washington, D.C.-based coalition on women and Social Security in 1978, served on the technical Committee on Earnings Sharing in Social Security, and co-edited a landmark report on Social Security and women in 1988. I also served on the Social Security subgroup of the House Select Committee on Aging, which in 1992 developed several incremental proposals to provide more adequate Social Security benefits for women, particularly low-income women. And I have been honored to have the opportunity to testify before Congress several times on Social Security issues.

And from that perspective, I can say that the stakes for women in the Social Security debate have never been as high as they are today: not because Social Security itself faces a crisis—because it does not—but because the proposals to create private accounts out of Social Security would dismantle the safety net that Social Security provides, particularly for women and families of all generations. Social Security does face a long-term shortfall that should be addressed, and there are benefits that can be improved for women and other vulnerable beneficiaries. I discuss ways to strengthen and improve Social Security later in my testimony. But, in the context of the proposals currently on the table, the most important recommendation is to first do no harm to this critical program.

Social Security is Important to All Americans—but Especially Women

Social Security is the largest source of income for most Americans in retirement; two-thirds of beneficiaries receive over half their income from Social Security. And, with lower earnings, more time out of the labor force for caregiving, smaller pensions and savings, but longer life spans, women are even more reliant on Social Security than men.

For more than four out of ten nonmarried women 65 and older, including widows, Social Security is virtually all they have to live on, providing 90 percent or more of their income; nearly six out of ten single African American and Latina women 65 and older get 90 percent or more of their income from Social Security. Without Social Security benefits, more than half (53 percent) of all women 65 and older (and 42 percent of men 65 and older) would be poor.

Social Security is More Than a Worker Retirement Program—Especially for Women

Social Security looks very different from a woman's perspective. For men, Social Security looks like a worker retirement program: 80 percent of male beneficiaries get benefits solely as retired workers. For women, Social Security is a family insurance plan. Only 33 percent of women get benefits solely as retired workers. Another 10 percent receive benefits as disabled workers. But 55 percent of women receive Social Security benefits, at least in part, as a spouse, or former spouse of a retired, disabled, or deceased worker.

Social Security assures the spouse of a retired worker a benefit equal to 50 percent of the worker's benefit; it assures the surviving spouse a benefit of 100 percent, assuming both spouses retire at full retirement age. Divorced spouses and divorced surviving spouses, if married to the worker for at least 10 years, are entitled to the same benefits as current spouses. Collectively, these benefits are referred to here as spousal benefits. Spousal benefits are paid in addition to benefits for the worker; they do not reduce the Social Security benefit the worker receives, or the benefit the current spouse (or ex-spouse) of the worker receives.

Retired women receive spousal benefits for two reasons. There are millions of women who rely entirely on the spousal benefit, because they have not been in the paid labor force for the 10 years (forty quarters) necessary to earn Social Security retirement benefits on their own work record. For example, about 7.5 million women age 65 and older receive Social Security benefits as widows, and half of them do not qualify for any other benefit. There are also millions of women who have earned a benefit on their own work records, but—because their lifetime earnings are lower than their husband's, their worker benefit is increased to the level of a spouse's or widow's benefit.

In the future, because more women are working in the paid labor force, more women will qualify for benefits on their own work record. But because women still earn less than men and still are more likely to take time out of the labor force for caregiving, their lifetime earnings well into the future are still likely to be lower

than their husbands'—whom they are still likely to outlive. Thus, the Social Security actuaries project that forty years from now, about 40 percent of women age 65 and older will still be receiving benefits as a spouse or widow, not just on their own work records.

And Social Security spousal benefits are not only important to women of retirement age. More than 182,000 young widowed mothers and 150,000 wives of disabled or retired workers caring for children receive Social Security benefits, along with over three million children. The surviving spouse of a deceased worker or the spouse of a disabled worker caring for children is eligible to receive benefits until the children turn 16; the children of the worker receive benefits until they turn 18 (19 if in school).

Though Social Security is rarely viewed as a children's program, it is one of our nation's largest and most successful safety net programs for children. Social Security provides family income to more children (5.3 million) than does Temporary Assistance for Needy Families (less than 4 million). And it does more to reduce child poverty overall than any other federal program, including TANF, the Earned Income Tax Credit and Food Stamps.

Relying on Benefit Cuts to Achieve Solvency Would Hurt Millions of Americans

While Social Security faces a long-term financing shortfall, it hardly qualifies as a crisis. Social Security can pay 100 percent of promised benefits for over 35 to 45 more years. At that point, Social Security is not flat bust; it can pay 70 to 80 percent of promised benefits from payroll taxes. In contrast, when Congress acted on the recommendations of the Greenspan Commission in 1983 to extend the solvency of Social Security and buildup the Trust Fund, Social Security was within months of exhausting the trust fund and being unable to pay full benefits. To put Social Security's financing challenges into perspective: the cost of eliminating the long-term shortfall is just one-fifth to one-third the cost of making the 2001 to 2003 tax cuts permanent. So, while it is better to deal with the shortfall sooner than later, Congress has the time to get this right.

Improving Social Security's solvency is important—it assures current and future workers that they will get the benefits they have earned and are counting on for themselves and their families. But achieving solvency—making Social Security's books balance over an extended period—is not an end in itself. Solvency can be achieved simply by cutting benefits deeply enough. But restoring solvency to the Social Security program primarily by cutting the Social Security benefits Americans depend on is a cure that's worse than the disease.

"Sliding scale" benefit cuts would harm the overwhelming majority of Social Security beneficiaries—especially widows and surviving children

The White House has acknowledged that private accounts do nothing to restore solvency to Social Security (indeed, as discussed later in this testimony, they make the problem worse). At a press conference on April 28, 2005, President Bush outlined his proposal for partially addressing the solvency of Social Security. He proposed cutting benefits on a sliding scale for workers currently under age 55.

These cuts occur because the proposal would change the current wage indexing of initial benefit levels to price indexing. Since prices generally increase slower than wages, benefits based on price indexing will be lower than current benefits based on wage indexing. The Administration's plan has sometimes been referred to as "progressive price indexing" because workers making less than $20,000 a year today are exempt from benefit cuts (at least as retired workers) and higher earners face progressively higher cuts. But this label is misleading, because the plan cuts benefits for 70% of retired workers, whose partially price-indexed benefits would no longer keep pace with wage growth and increases in the overall standard of living. Many middle-income workers who rely heavily on Social Security benefits would face deep cuts. And many beneficiaries with incomes under $20,000—especially widows and surviving children—would in fact have their benefits cut because their benefits are based on the record of a worker who earned over $20,000 a year.

In testimony to the full Committee on Ways and Means on May 12, 2005, economist Jason Furman illustrated the effects of the President's proposal. For a worker with medium earnings ($36,300 today) retiring in 2055, the proposal would mean a 21 percent cut in scheduled benefits, from $22,097 to $17,545 (in 2005 dollars). For a worker with average earnings retiring in 2075, benefits would be cut 28 percent (from $27,344 to $19,715 in 2005 dollars).

For a moderately high earner—$58,560 today—the benefit cut would be deeper. For such a worker retiring in 2055, benefits would be cut 31 percent below sched-

uled levels (from $29,296 to $20,214 in 2005 dollars); in 2075, benefits would be cut 42 percent (from $36,254 to $21,100 in 2005 dollars).

There are several important points to note about the benefit cuts under this proposal:

- they apply whether or not a worker chose to contribute to a private account;
- they grow deeper over time, so younger workers face the deepest cuts; and
- they apply not just to worker retirement benefits, but to benefits for spouses, divorced spouses, surviving spouses and surviving children.[1]

To repeat, these are deep benefit cuts for 70% of retired workers and their families, especially given the significant reliance so many beneficiaries have on Social Security. But for widows and surviving children, whose reliance on Social Security is even greater, they are devastating.

The risk of poverty for women 65 and older rises dramatically with widowhood. Just 3 percent of married women 65 and older receiving Social Security benefits are poor. The poverty rate is five times higher—15 percent—among widowed women, and 27 percent of widowed women have incomes below 125 percent of poverty. Widowhood makes women economically vulnerable—even if they were secure before. Under current law, although a widow is entitled to the higher of her own worker benefit or 100 percent of her husband's benefit, her Social Security income as an individual is at best one-half to two-thirds of what the couple had been receiving. Any pension benefits the husband was getting may end, or be cut in half (ERISA guarantees a 50 percent survivor benefit for spouses in defined benefit pension plans, but such plans are disappearing), and women are much less likely than men to have their own pension benefits. And the couple's assets may already have been depleted, especially by illness.

When a worker dies before retirement age, the family can be just as, or even more economically vulnerable. The worker and spouse together may have been making a middle-income wage—but when part or all of that income disappears, a formerly middle-class family is at risk of becoming poor. Social Security benefits for surviving spouses and surviving children replace part of that lost income. Current benefit levels allow many, though not all, widows and children to stay out of poverty and maintain their dignity—if nothing like their former standard of living.

Later, this testimony suggests ways that Congress could improve benefits for widows, the largest group of poor elderly women. But at the very least, Congress should reject plans to cut these benefits.

The Administration has said that benefits for a disabled worker would be protected from these sliding scale benefit cuts, but not necessarily fully protected when the disabled worker retires (Associated Press, "White House Leaves Disabled Benefits Open," May 13, 2005). It has said that the details can be worked out through the legislative process. But these details are not easy to work out. And the Administration has been silent on whether these cuts apply to the spouses and children of disabled workers, as it has conceded they do to surviving spouses and surviving children.

Social Security is an integrated social insurance program that uses the same basic formula to calculate benefits for retired workers, workers who become disabled, and family members who are eligible for benefits on a worker's record. So, for example, when a disabled worker reaches retirement age, the benefits continue seamlessly. If a worker's disability but not retirement benefits were protected from cuts, a disabled worker could face a steep cut in benefits upon reaching retirement age. On the other hand, maintaining the unreduced benefit for disabled workers throughout retirement, while benefits for retired workers who contributed to Social Security for a full working life are being cut, would raise new equity issues and create an incentive for workers to claim disability before retiring. Similar rules and considerations apply for the spouse and children of a disabled worker who receive benefits based on the worker's earnings record. If they are not protected, the disabled worker and his or her family suffers a reduction in income. But if they are protected, there is the anomalous result that benefits are reduced for a child whose parent dies, but not reduced for a child whose parent becomes disabled.

Finally, as the White House has conceded, these sliding scale benefit cuts address only part of the current system's 75-year solvency shortfall and none of the increase in that shortfall created by the borrowing needed for his plan for private accounts. The White House originally said that the sliding scale reductions would close 70

[1] The Administration recently confirmed that its proposal would reduce benefits for surviving children and widows (Associated Press, Survivor Benefits Face Cut, Official Says, May 12, 2005), and it is therefore reasonable to assume it applies to spouses, divorced spouses, and surviving divorced spouses as well.

percent of the current system's shortfall. But that estimate was developed for the Pozen plan, which cuts disability benefits. With protections for disability benefits and a small improvement in the minimum benefit, which the White House has said are also components of its plan, the sliding scale benefit cuts would close only 59 percent of the current 75-year shortfall in Social Security (Testimony of Jason Furman to the Committee on Ways and Means, May 12, 2005).[2] Because the creation of private accounts worsens Social Security's solvency over the next 75 years, the combination of sliding scale benefit cuts and private accounts would close just 30 percent of the shortfall (Furman testimony). Since the President has ruled out tax increases to address these shortfalls, it appears his plan will have to include more benefit cuts, compounding the impact of both these cuts and the cuts described below that are part of his private accounts plan. These deep and painful benefit cuts should be rejected.

Creating Private Accounts Within Social Security Would Worsen Social Security's Financing and Unravel the Social Security Safety Net That is Especially Critical to Women and Their Families

Americans are counting on the benefits they earn through Social Security to protect themselves and their families. Trying to achieve solvency primarily by cutting benefits would deny them that protection. Adding private accounts financed by Social Security revenue and designed to substitute for Social Security benefits to such a proposal, far from being a "sweetener," would actually make matters worse. Private accounts would hurt the solvency of Social Security—and the rest of the federal budget—and the economic security of Americans who depend on Social Security, especially women and their families.

Private accounts would hurt the solvency of Social Security and add trillions to the national debt, forcing cuts to services vital to women and their families

As the Administration now acknowledges, private accounts do nothing to restore solvency to Social Security, even over the very long term. And over the shorter term—the next several decades, during the peak years of the baby boomers' retirement—they make the current shortfall in Social Security much worse. If payroll taxes are diverted from Social Security into private accounts, Social Security has *less* money to pay promised benefits to current and near retirees, disabled workers and their families, widows, and children. Creating private accounts out of Social Security would accelerate the date that the trust fund is depleted by 11 years (2030 instead of 2041), even with the sliding scale benefit cuts recently proposed by the President (Testimony of Jason Furman to the Committee on Ways and Means, May 12, 2005).

To fill the hole that private accounts would create in the Trust Fund, and make good on promises to pay full benefits to those currently age 55 and older, the Administration's and most other private accounts plans would require the transfer of trillions of dollars from the rest of the budget to Social Security. Since the general budget is already running record deficits, that money will have to be borrowed. To make matters worse, the added burden of financing the costly and prolonged transition to private accounts would hit at the same time as the government faces growing health care costs and other pressing national needs.

Americans of all ages—the young especially, because the debt will be with them for their whole lives, but also those who have already retired—will have to bear the burden of paying off the added debt to finance private accounts, in the form of higher taxes, cuts in vital services, and higher interest rates that make it harder to finance a home, a car, a college education. Women and their families will be particularly hard hit, because they disproportionately rely on supports such as Medicaid, child care, food stamps, housing—programs that already are facing cutbacks.

Private accounts would undermine retirement security for workers—especially working women

There are many problems with expecting a private account to provide the kind of disability and family protections that Social Security provides, as the next section of this testimony explains. But trading the secure benefits that Social Security provides—benefits that do not fluctuate with the stock market, that cannot be outlived, and that keep pace with inflation—is also a bad deal for retired workers, especially women.

[2] The White House has subsequently acknowledged that its statement that sliding scale reductions "would solve 70 percent of the funding problems facing Social Security" refers to the deficit in the 75th year (2079), not to the cumulative deficit over the next 75 years.

A crucial—but often misunderstood—aspect of the Administration's plan for private accounts is that they would *not* provide income on top of Social Security, the way an Individual Retirement Account (IRA) or an account with the federal employees' Thrift Savings Plan would. Under the Administration's proposal, workers who choose to contribute to an account would pay back every dollar contributed—at an interest rate of three percent above inflation—out of their remaining Social Security benefit. This pay-back requirement—sometimes referred to as the "offset" or "privatization tax"—represents a second cut in the Social Security benefit, on top of the sliding scale benefit cut or any other benefit cut made to achieve solvency.

In his testimony to the full Committee on Ways and Means on May 12, 2005, economist Jason Furman illustrated what the President's plan (including the sliding scale benefit cut) would mean for a medium earner (average wage, or $36,000) retiring in 2075, whom I'll call Jamie. All dollar amounts are 2005 dollars.

Under current law, Jamie's retirement benefit would be $27,344. This would be cut by $7,629 under the sliding-scale benefit reduction. If Jamie contributed to a private account, the offset would cut the benefit by an additional $12,414, leaving Jamie with a traditional Social Security benefit of $7,301—a 73-percent reduction in the scheduled benefit. The rest of Jamie's retirement benefit would depend on the private account—and the market.

Relying on private investment accounts to replace Social Security benefits involves real risks—as anyone who has watched the stock market over the past few weeks or the past 5 years can attest. Thus, the Congressional Budget Office uses a risk-adjusted methodology to estimate the returns on private accounts (and on public pension investments by the Railroad Retirement Fund). CBO expects private accounts to earn an annual return of 3.0 percent above inflation, after adjusting for risk.[3] So, assuming a return of 3.0 percent above inflation, and that Jamie converted the account to a single-life annuity, Jamie would get $12,414 a year from the account—enough to cover the benefit offset, but with nothing left to mitigate the sliding-scale benefit cut. The combination of the doubly reduced Social Security benefit and the private account would provide Jamie with $19,715 a year, a 28-percent reduction from the scheduled benefit.

Jamie might be a luckier investor than in this example. A group of leading financial economists surveyed by the Wall Street Journal estimated future rates of return at 3.4 percent above inflation. That would give Jamie $14,125 from the account—an extra $1,711 per year. But Jamie also could do worse. Financial economist Robert Schiller estimates that workers investing in life cycle accounts (which the Administration has said would be the investment option selected if accountholders did not designate otherwise, and would be required beginning at age 47) would lose money on the accounts 71 percent of the time, using returns he believes are a more realistic projection of future returns than historic returns.[4] (Robert Shiller, "The Life Cycle Personal Accounts Proposal for Social Security: An Evaluation" (March 2005)). Or Jamie could earn a slightly better rate of return—but find that all the gains were wiped out by investment costs that exceed the 0.3 percent assumed in these examples. (The Thrift Savings Plan has administrative costs of 0.6 percent.)

If Jamie is a woman, she could face other problems relying on a private account to replace her Social Security benefits. With a private account, the timing and size of contributions, as well as overall investment returns, affect the size of the accumulation. If Jamie took several years out of the labor force early in her working life to raise children, she will likely have a smaller account, because of the loss of compounding on contributions in the early years. In contrast, Social Security helps counteract the lifetime earnings gap between men and women, caused by women's lower wages and more time out of the labor force for caregiving, because it has a progressive benefit formula that provides lower earners with a higher percentage of their pre-retirement income, counts only the 35 highest years of earnings toward the average used to determine benefits, and makes the timing of earnings irrelevant.

In addition, unless Congress acts to overhaul the private annuity market as part of a private accounts plan, Jamie could face other problems when she tries to turn her account into an annuity that will provide income for life. Social Security pays monthly benefits on a gender-neutral basis; in the private annuity market, if a woman and man each buy an annuity with the same sum of money, the woman will get lower monthly benefits. Such gender discrimination must be prohibited in any private accounts plan in Social Security. Social Security provides annual cost of liv-

[3] CBO assumes a risk-adjusted return on investment of 3.3 percent above inflation—CBO's projected return on Treasury bonds—minus 0.3 percent for administrative expenses. Congressional Budget Office, Long-Term Analysis of Plan 2 of the President's Commission to Strengthen Social Security (July 21, 2004, updated Sept. 30, 2004).

[4] He estimates a median return of 2.6 percent above inflation.

ing adjustments; this is especially important for women, to prevent the value of benefits from being eroded by inflation over the cost of a long lifetime. No private annuities currently offer full protection against inflation, and experts believe they are unlikely to offer such a product without the involvement of the federal government, even if the market for annuities expanded under a private accounts plan (See National Academy of Social Insurance, *Uncharted Waters: Paying Benefits from Individual Accounts in Federal Retirement Policy, Study Panel Final Report*, Reno, Graetz, Apfel, Lavery, and Hill, eds., 2005) (hereafter NASI, *Uncharted Waters*). Moreover, there is a risk that a private annuity company might go out of business before all benefits are paid, as in the case of the Executive Life Insurance Company (see NASI, *Uncharted Waters*). Workers will need an assurance that the annuity they purchase from a private annuity company will be there for the rest of their lives—just like Social Security. This is especially important for women, who are likely to live longer than men but whose lower incomes mean they have less in savings for retirement. According to the Employee Benefits Research Institute, among those aged 21 to 64, the typical woman's 401(k) balance is 59 percent of the typical man's ($10,000 v. $17,000); the typical woman's IRA balance is two-thirds of his ($8,800 v. $13,000); and women are less likely than men to have either a 401(k)-type plan or IRA.

In short, under a private accounts plan, it is likely that the federal government will have to play an active role in the annuities market, and probably act as a guarantor, to make sure that the annuities purchased with private accounts—which Americans would be counting on to provide their basic retirement security—are nondiscriminatory, adjusted for inflation, and secure for the rest of their lives. But Social Security does that already, and at much lower cost than could be achieved through a new system.

Private accounts would further jeopardize benefits for retired spouses and widows

As described above, workers under age 55 face two benefit cuts under the President's plan: a "sliding scale" benefit cut, except for the lowest-income workers, whether or not they participate in a private account, and a second benefit cut if they do.

The Administration has recently confirmed that the first benefit cut would also apply to surviving spouses, and by analogy spouses. And it is very likely that the second benefit cut—the offset—will apply to the benefits of the spouses and surviving spouses of workers who contribute to a private account as well. Benefits for spouses and surviving spouses are based on the worker's benefit. And all the plans with offsets that have been developed so far would reduce the benefits for a retired spouse and surviving spouse, as well as the worker who chose an account. (See NASI, *Uncharted Waters*.)

Workers subject to the offset would at least have a private account to try to make up for the additional cut in their Social Security benefits. But spouses and surviving spouses do not appear to be guaranteed any payments from a spouse's private account under the President's plan. The President has said that workers could leave an account "to anyone": so a widow might not inherit the account. The President has said that workers could be required to purchase an annuity for themselves to ensure that they do not spend their accounts too quickly and end up poor. But the President has never said that married workers would be required to purchase an annuity that provides a benefit to the surviving spouse. So wives and widows may end up paying for a spouse's choice of an account with further reductions in their Social Security benefits, even though they get nothing from the account.

To illustrate what the combination of sliding-scale benefit cuts and private accounts for Social Security might mean for women when they are widowed, let's consider the situation of Michael and Sarah, a couple who retire in 2075. Michael's income puts him in the medium earner category. Sarah has less than 10 years in the paid labor force and is therefore not eligible for a Social Security benefit as a worker. Michael contributed to a private account.

Michael's benefits would be the same as Jamie's in the previous example. After the sliding scale benefit cut and the offset, his traditional Social Security benefit would be reduced from $27,344 to $7,301 a year. If Sarah's widow's benefit is based on his traditional benefit, it also would be $7,301. If Michael bought a single life annuity for himself—to assure himself of a modest $19,715 a year income—there would be nothing in the account for Sarah to inherit and no payments from the account for Sarah. Sarah would have a benefit of just $7,301—a 73 percent cut.

Michael could purchase an annuity with survivor benefits for Sarah. But to get an annuity with survivor benefits, he (and they) would have to accept lower pay-

ments during his lifetime.[5] If Michael and Sarah are the same age, and Michael purchased a symmetrical two-thirds joint and survivor annuity (an annuity that pays two-thirds of the previous benefit to the survivor, whether or not the survivor is the primary annuitant), Michael's annuity payments would be 93 percent of what they would be with a single life annuity. The survivor—Michael or Sarah—would get two-thirds of that, or 62 percent of the single-life annuity payment. So, the survivor would have a traditional Social Security benefit of $7,301 plus an annuity from the account of $7,697 (.62 x $12,414) or $14, 998: a 45 percent cut, even worse than the 28 percent benefit cut single average earners can anticipate.

If Sarah is a few years younger than Michael, rather than the same age, the payments will be lower still to account for her longer life expectancy. If he also has to make provision for a minor or disabled adult child, the account will provide even less income to him and Sarah.

If Sarah were a career low earner (under $20,000), who qualified for a worker benefit, she would not be subject to the sliding scale benefit cut. Her Social Security benefit as a lifetime low earner would be $16,599, higher than she would get as the widow of a worker with medium earnings and a private account. However, if Sarah contributed to a private account for herself, her own worker benefit would be cut by the offset to $11,022. She would also have her private account which could provide her with an annuity of $5,577 a year, leaving her with $16,599, a 39-percent reduction from her scheduled widow's benefit. (If Sarah worked less than a full career at low wages, but enough to qualify for a Social Security benefit, her Social Security benefit and annuity would be lower than this example.)

Given the importance of spousal benefits to women, now and in the future, it is disturbing that the effect of private accounts on these benefits has received so little attention. But there may be a reason for the silence on these issues. With private accounts—which represent a finite pool of assets—there are real and difficult tradeoffs involved. The Administration recently acknowledged that 15 percent of all retirees and 30 percent of lower earners would have to annuitize their entire account to assure themselves of a poverty level income, leaving no inheritance—or survivor's benefits. Social Security can provide supplementary benefits for surviving spouses and children, as well as other protections, because it is a broad-based social insurance plan. A private retirement account cannot.

Private accounts would further jeopardize benefits for young widowed mothers and surviving children

The Administration has confirmed that benefits for young widowed mothers and child survivors would be subject to the sliding scale benefit cut under the President's plan. And private accounts are likely to provide little if any assistance to these women and children. The account of a worker who dies at a young age would be small. It would provide little additional support for a woman raising young children, even if she had access to the funds in the account when disaster struck—and she might not. The Administration has said that accounts could be left to anyone, so a young widow might not inherit. Even if she did inherit, the administration has said that accounts must be saved until retirement, so a young widow might not have access to the funds until she retired. It also is unclear whether a widow would inherit the account free and clear, or if she would also inherit the offset that goes with it.

Private accounts would further jeopardize the benefits of divorced spouses and divorced surviving spouses

The Administration has confirmed that surviving spouses are subject to the sliding scale benefit cut and by analogy divorced spouses and divorced surviving spouses. As described above, Social Security provides benefits to divorced spouses and divorced surviving spouses who have been married for at least 10 years. Benefits for divorced spouses are calculated in the same way as benefits for spouses and surviving spouses, based on the full work history of the higher-earning spouse, not just the earnings during the period of the marriage. As with other spousal benefits, they can be as much as 50 percent of the higher-earning spouse's benefit while the higher earner is alive, and 100 percent when the divorced spouse is widowed. About a million women receive benefits, at least in part, as a divorced spouse or widow, and these benefits are a crucial source of income for this economically vulnerable group of women.

[5] The annuity adjustment factors in the example below were developed by the Social Security actuaries. See National Academy of Social Insurance, Uncharted Waters: Paying Benefits from Individual Accounts in Federal Retirement Policy, chapter 3 (2005).

Among the many unanswered questions about private accounts is how they would be affected by divorce. The Administration has said that accounts could be divided at divorce, but it is unclear whether that division would be automatic or whether a spouse would have to get the court to divide the account(s) during the divorce. Many women already lose out on a share of their spouse's retirement plan, either because they had no lawyer and didn't know to ask, or because their lawyer was not knowledgeable about dealing with pensions. It is also unclear whether accounts would be divided in half or in some other manner. And it is unclear what would happen at divorce if only one spouse had chosen to contribute to a private account—especially if the spouse with the account was the lower earner.

If the divorced spouse gets a share of an account at divorce, there are likely to be other consequences. If a divorced wife gets a share of her husband's private account, she is likely to get the offset that goes with it—which she would have to repay out of her own, probably smaller, Social Security benefits.

Social Security's current system of spousal benefits has reduced conflicts and administrative costs. To receive benefits as a divorced spouse, an applicant provides documentation of the marriage and divorce to the Social Security Administration when she applies for Social Security benefits. There is no need to seek these benefits during the divorce, and no need for the Social Security Administration to track changes in marital status across the lifespan. Moreover, the payment of Social Security benefits to a divorced spouse does not affect the benefits paid to the worker or his or her current spouse or surviving spouse, eliminating tension and disputes.

Issues of spousal rights in private accounts raise many new and complex questions. If the accounts are property, are they subject to state laws concerning marital property—leading to different rights for spouses in community property and common law states—and for couples that move from state to state? What happens when one member of a couple chooses to participate in an account, but the other does not? These questions, too, must be answered.[6]

Options for Strengthening and Improving Social Security

The first and most important element of any plan to strengthen Social Security must be to avoid weakening it by shifting trillions of dollars from Social Security into private accounts. If Congress decides not to create private accounts out of Social Security, the long-term shortfall is manageable, and there are various options for strengthening Social Security's finances that would not require deep benefit cuts for the vast majority of Americans. For example[7]:

Only earnings up to $90,000 are subject to Social Security taxes. A clerical worker earning $25,000 a year pays Social Security taxes on 100 percent of her wages; a manager earning a salary of $270,000 pays Social Security taxes on only a third of his. Raising the tax cap would raise revenue and improve the progressivity of Social Security.

According to the Office of the Chief Actuary of Social Security, if all wages were taxed and counted toward benefits using the current formula, 93 percent of the long-term shortfall would be eliminated. With an adjustment in the benefit formula for the very highest earners, this approach could eliminate 100 percent of the shortfall. If the tax cap was raised gradually, over the next decade, so that 90 percent of wages were subject to tax as they have been historically, 40 percent of the shortfall would be eliminated. If this change were made effective immediately, or the tax cap were raised above 90 percent, more than 40 percent of the shortfall could be closed.

Alternatively, or in addition, other revenue could be dedicated to Social Security. (Note that the financing of plans for private accounts relies heavily on general revenue transfers, without specifying the source of funds.) For example, retaining the estate tax at the 2009 level—when it will apply only to estates worth over $3.5 million for an individual, $7 million for a couple, exempting all but about 0.5 percent of estates—and dedicating the revenue to Social Security would close about 27 percent of the long-term shortfall. The cost of not making the recent tax cuts permanent for the wealthiest 1 percent of Americans (income above $300,000 a year) would generate about enough revenue to close the long-term shortfall.

While Social Security is running surpluses, and assets in the Trust Fund will continue to grow for another two decades, the rest of the federal budget is running huge deficits, primarily as a result of large recent tax cuts. Getting the rest of the government's fiscal house in order by restoring the revenue base will make it easier on

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[6] See Uncharted Waters, *supra* note 4.

[7] The options that follow are discussed in Reno and Lavery, National Academy of Social Insurance Issue Brief No. 18, Options to Balance Social Security Funds Over the Next 75 Years (2005).

the rest of the budget when the time comes to redeem the Treasury bonds held by the Social Security Trust Fund.

Precisely because Social Security is so important to women and their families, and because Social Security, as a broad social insurance program, can provide family insurance benefits that private accounts cannot match, a true reform plan should strengthen and improve Social Security benefits. The National Women's Law Center and many other women's organizations have proposed various ways to improve Social Security benefits for women over the years. This testimony highlights two: improved benefits for people with low-lifetime earnings—including women who have taken time out of the labor force for caregiving and for widows and widowers.

President Bush's Social Security plan includes an adjustment to benefits for low-earners. The details of this proposal have not been released by the Administration, but during his press conference on April 28, 2005, the President stated, "If you work hard and pay into Social Security your entire life, you will not retire into poverty."

The President's recognition of the need to improve Social Security benefits for low earners is an important contribution to the debate. But if "paying into Social Security your entire life" means that a worker must have 40 years in the labor force—or even 35—to qualify for a poverty-level benefit, few low-wage men and even fewer women would be protected.

The low-wage labor market, for men and women, is characterized by instability: high turnover, temporary and seasonal employment, and part-time work that lead to gaps in employment. And many women take time out of the labor force for caregiving, some by choice and some because they cannot afford quality child care or caregiving help for an elderly family member.

Congress created a Special Minimum Benefit in 1972 to "provide long-term workers with an income that would free them from dependency on welfare."[8] But a career of 30 years—the length of time required to get the maximum from the Special Minimum Benefit—is relatively rare among low earners. On average, the 25 percent of workers with the lowest lifetime earnings had only 17 years with any earnings.[9] In large part because increases in the initial benefit because of the Special Minimum Benefit are price-indexed—while determination of the initial benefit under the regular Social Security benefit formula is wage-indexed—the value of the Special Minimum Benefit as an alternative to the regular benefit for lifetime low earners has also been steadily diminishing. Fewer people are being helped by the Special Minimum Benefit, and the added benefit it provides is shrinking; by 2013, the Special Minimum Benefit is expected to phase out entirely.[10]

There are various ways to improve the Special Minimum Benefit. The National Women's Law Center co-authored a paper that explores various options, including lowering the number of years required to receive the maximum from 30 years to 25; lowering the earnings requirement to get credit for a year of service; and/or counting partial years of coverage.[11] Caregiving years could be counted toward the Special Minimum Benefit.[12] There are ways to adjust the regular benefit formula to increase benefits for low-income workers and their families—not just shield some of them from benefit cuts.[13]

The economic security of widows, the largest group of poor, elderly women, could be improved by adjusting the Social Security survivor benefit to allow survivors to keep a larger fraction of the couple's benefit.[14] As previously described, the amount of the Social Security survivor benefit currently ranges from 50 to 67 percent of the combined benefits received by the couple. The proportion of the couple's benefits received by the survivor depends on the relative earnings of the husband and wife. The closer their earnings levels, the larger the drop in Social Security income at widowhood. Increasing the survivor benefit to 75 percent of the couple's benefit would—other things being equal—increase benefits for surviving spouses. The survivor of a two-equal-earner-couple would get the greatest increase under this proposal, reducing the disparity in survivor benefits between one- and two-earner cou-

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[8] *See* Olsen and Hoffmeyer, *Social Security's Special Minimum Benefit*, Social Security Bulletin 64(2) (2001–2002).

[9] Analysis was for workers born between 1926 and 1960. See FitzPatrick, Hill and Muller, National Women's Law Center, Increasing Social Security Benefits for Women and Men with Long Careers and Low Earnings (2003).

[10] *Id.*

[11] *See* FitzPatrick *et al.*, *supra* note 7.

[12] *See* Campbell, Report of the Social Security Subgroup of the Women and Retirement Study Group of the House Select Committee on Aging on Social Security Structural Issues (1992).

[13] For a discussion of various options, see Hartmann and Hill, Strengthening Social Security for Women: A Report from the Working Conference on Women and Social Security (1999).

[14] *See* FitzPatrick and Entmacher, National Academy of Social Insurance Issue Brief No. 9 Widows, Poverty, and Social Security Poverty Options (Aug. 2000).

ples with similar combined lifetime earnings. This proposal could be targeted to those with lower earnings by capping the amount that anyone could receive from the proposed alternative calculation of the survivor benefit.

However, increasing the survivor benefit to 75 percent of the couple's benefit will not necessarily mean higher benefits for widows if the higher percentage is applied to reduced benefits, as it was under Model 2 of the President's Commission to Strengthen Social Security. For example, suppose a couple is scheduled to receive $3,000 a month in combined Social Security benefits, and the plan reduces benefits for average earners by 28 percent. Seventy-five percent of the new combined benefit would be less than two-thirds of the original benefit ($3,000 x 2/3 = $2,000 v. $3,000 x 82% x 75% = $1,845 a month).

I urge this Subcommittee to consider benefit improvements for women and other vulnerable beneficiaries. But the improvements must be real, not window-dressing. If a plan purports to improve traditional Social Security benefits for women—but simultaneously destroys the foundation of the traditional program by draining Social Security to create private accounts—the improvements are a sham. If benefit adjustments fail to increase scheduled benefits—if they merely keep the cuts in the plan from being as deep for some beneficiaries—they are not real improvements.

Conclusion

Through Social Security, Americans contribute while they are working to earn protections for themselves and their families when income is lost due to retirement, disability, or death. Risks are shared, across the country and the generations. This system—especially vital to millions of women and families—should not be dismantled by shifting to a system of private accounts that would leave individuals to face life's risks on their own.

Chairman MCCRERY. Thank you, Ms. Campbell. I thank all of you for your testimony today. You have clearly pointed out some things that the Subcommittee should be concerned about and must consider as we go forward in this discussion of reforming Social Security. I want to thank the Members of the Subcommittee for staying so long today through a long hearing. Unfortunately, we have a series of votes on the floor which would take us, I estimate, 35 to 40 minutes to conclude. Rather than have you all sit here for another 35 or 40 minutes while we vote and then come back, if it is all right with you, we would like to submit some questions to you in writing and ask you to respond likewise. Would that be okay? Thank you very, very, much.

[Whereupon, at 5:04 p.m., the hearing was adjourned.]

[Questions submitted from Chairman McCrery to Commissioner Barnhart, Ms. Bovbjerg, Ms. Lukas, Ms. Ford, Mr. Tanner, Ms. Rockeymoore, and Ms. Duff Campbell, and their responses follow:]

Questions from Chairman Jim McCrery to the Honorable Joanne B. Barnhart (Answers not received at time of printing)

Question: In your testimony, you discuss the changes enacted in 1983 to achieve solvency over 75 years, which included raising the retirement age, taxing Social Security benefits, and other modifications. By design, it achieved "solvency" by building up the Social Security Trust Funds, with full knowledge that the program would start running deficits much sooner. In the end, the 1983 amendments simply kicked the can down the road rather than providing a lasting solution. Would you agree that a durable solution must do more than buildup bigger balances of Treasury IOUs in the trust funds, it must bring Social Security's income and costs in line with each other in the long run?

Question: You mentioned that the cap on earnings subject to Social Security taxes at the time Social Security was enacted was $3,000. The history of the program's evolution and the decision to raise that wage cap in 1950 indicates that the cap represented the belief that Social Security should provide a base of protection, upon which employer pensions and private

saving would build. In other words, Social Security was intended to provide a floor of retirement income, not an overly generous benefit. Do you agree? Tell us your views regarding whether raising the cap substantially or eliminating it entirely would be consistent with the historical intent of Social Security? What are the tradeoffs Congress would need to consider as we examine such an approach?

Question: The history you describe is one of expanding benefits, with tax increases to keep paying for it. That worked for several decades. However, today, 96 percent of workers are in jobs covered by Social Security, the tax rate has increased sixfold, and the percent of workers who have their entire earnings subject to Social Security taxes is near the historic high. Do you believe that increasing taxes as we have done in the past will be a lasting solution, or will simply lengthen the fuse on this demographic time bomb?

Question: You mentioned the Social Security amendments 1977. At the time, benefits were growing too fast, and retirees would have ultimately received benefits that replaced more than their previous earnings. There was considerable debate about how fast Social Security benefits should grow in the future. Ultimately, Congress decided to have initial benefits grow at the same rate as wages, and post-retirement benefits grow at the same rate as prices. The objective, as you stated, was to provide benefit levels that replaced a constant percentage of career average earnings. However, as you said, even this rate of benefit growth is sustainable at current payroll tax rates when the number of workers per retiree is falling. Could you elaborate on why this is so?

Question: Testimony in the third panel of this hearing will suggest using income taxes or estate taxes to help finance Social Security on a permanent basis. As we learned last week, President Roosevelt believed it was very important that Social Security be financed by payroll taxes, rather than general revenues. When President Roosevelt was reviewing the final package that would be sent to the Congress, he learned that as written, the package would require government subsidies in the future. He was quoted to have said, "This is the same old dole under another name. It is almost dishonest to build up an accumulated deficit for the Congress of the United States to meet in 1980. We can't do that. We can't sell the United States short in 1980 any more than in 1935." Would you tell us why President Roosevelt believed so strongly that Social Security should be self-financed? What are the risks if general revenues are permanently used to finance Social Security?

Question: The workers and families of today are very different than they were when Social Security was enacted. Women's workforce participation has doubled. The percent of female-headed families has increased by two-thirds. You described the benefits that have been added to Social Security over time, but can you describe some ways in which Social Security has failed to keep up with changes in our society?

Question: Social Security has been described as "social insurance." What this means exactly is important—while some of our upcoming panelists agree that personal accounts are effective at helping to finance the "insurance" aspect of the program, there is particular disagreement regarding the extent to which personal accounts are effective in financing the "social" aspect of the program. For example, when the program was enacted, a worker paid a "premium" (payroll taxes) and received a retired worker benefit for him or herself. This is the "insurance" aspect of Social Security, which was later expanded to include disabled workers. In contrast, workers also receive benefits for their spouses, children, and other family members, even though an individual worker does not pay extra into the system to cover his or her family members—and this is part of the "social" aspect of Social Security. Would you agree that Social Security as it currently stands represents a co-mingling of benefits, some of which are "insurance" as originally envisioned in 1935, and some of which were added over time to achieve social goals beyond what pure "insurance" would provide?

Question: In your testimony you describe the many protections Social Security provides to vulnerable populations. Would you discuss which protections you believe are essential to maintain, and which should be enhanced?

Question: During the 107th Congress, this Subcommittee originated legislation (H.R. 4069) that would have enabled more disabled widows and divorced spouses to become eligible for benefits. This legislation would have helped an estimated 120,000 people—primarily women—and it was ap-

proved by the House of Representatives. One of the provisions in that legislation would have repealed a time limit that applied to disabled widow(er)s applying for benefits. Under current law, a disabled widow(er) may only collect benefits if she or he is at least age 50, and the disability began within 7 years of the worker's death. Are there particular policy reasons for these restrictions, and do you believe these restrictions should be repealed? Another provision in that legislation would have enabled certain divorced spouses to qualify for benefits sooner. Under current law, a divorced spouse may collect benefits based on her ex-husband's record, even if he is not yet collecting benefits, if the divorce has been in place for at least 2 years. This is intended to prevent people from seeking a divorce simply to gain access to spouse benefits. However, in some cases, the 2-year waiting period may cause hardship on divorced spouses. Would you agree the 2-year waiting period should be eliminated in cases where the worker remarries and it is clear the divorce was not a ruse simply to get spouse benefits? Under current law, there is what is called a "special minimum benefit." This benefit is granted to workers with at least 30 years of earnings at a minimum level ($10,035 in 2005). The maximum benefit equals about 85 percent of the poverty threshold. Since this minimum benefit is indexed to the CPI (prices) while the regular benefit formula is indexed to wage growth—and wages generally grow faster than prices—fewer and fewer workers are qualifying for the special minimum benefit. Today, about 120,000 beneficiaries receive the special minimum benefit. Do you believe Congress should improve the minimum benefit that applies to long-time low-wage workers?

Question: Under current law, one-earner couples are treated more generously than two-earner couples with the same total earnings. Do you believe Congress should make changes to equalize the treatment of one-earner and two-earner couples, particular with respect to benefits for widows, as widows have a higher than average poverty rate? Several proposals would provide widows with benefits that equal 75 percent of what the couple received, subject to a cap based on an average retired worker's benefit. Do you believe this would be a step in the right direction?

Question: In 2000, Congress enacted the Senior Citizens Right to Work Act (P.L. 106–182), which eliminated the senior earnings penalty for individuals who reached full retirement age. Would you discuss the pros and cons of eliminating the senior earnings penalty for early retirees?

Questions from Chairman Jim McCrery to Barbara D. Bovbjerg

Question: In your testimony, you highlighted Social Security's importance in helping to reduce poverty among seniors. What would you suggest as options to enhance Social Security's role in providing a basic floor of protection for low-income seniors. For example, would maintaining or increasing the progressivity of the current benefit formula, or enhancing the minimum benefit offered under Social Security, help prevent poverty among seniors?

Answer: Social Security's benefit formula is designed to be progressive; that is, it provides disproportionately larger benefits, as a percentage of earnings, to low-wage earners than to high-wage earners. By replacing a larger percentage of low-wage workers' pre-retirement income in this way, the benefit helps ensure adequate retirement incomes for these workers. There are various proposals to improve the progressivity of the Social Security system, including (1) increasing the benefit for widow(er)s by paying the individual 75 percent of the benefit they received previously as a couple, and (2) providing minimum benefit amounts, such as 100 or 120 percent of the poverty level, for qualifying workers.

While the proposed changes will not necessarily prevent poverty among the elderly, they do ensure a minimum level of protection. If such proposals are considered, it may be helpful to examine their interactions with other programs, such as the Supplemental Security Income (SSI) program, which also provides financial assistance to the elderly. Additionally, any proposed changes to one part of Social Security should be considered with respect to the other elements of the program, including disability and survivors. Ideally, Social Security reform proposals will be considered as comprehensive packages, as some options that improve progressivity could be offset by others that reduce it.

Question: Would you explain the differences between the Supplemental Security Income (SSI) program and the Social Security program? What population does each serve? Describe the population that receives both

benefits? What options are there for improving the coordination of protection between these two programs?

Answer: The Social Security program provides cash benefits to retired and disabled workers and their dependents and survivors. Workers become eligible when they have enough years of earnings covered under Social Security, (i.e., earnings from which Social Security taxes are deducted); they and their employers pay payroll taxes on those covered earnings to finance benefits. The Supplemental Security Income (SSI) program is a means tested program that provides cash benefits to meet basic needs for food, clothing, and shelter. It is the nations' largest cash assistance program for the poor, and although SSI is administered by the Social Security Administration (SSA), it is funded by general tax revenues and not the Social Security Trust Fund.[1]

Current beneficiaries of Social Security include insured workers who are eligible for retirement or who cannot work due to a disability, these workers' dependents, and certain survivors of deceased insured workers. Current beneficiaries of SSI include persons who are age 65 and older, blind, or disabled, and who have limited income and resources. Unlike Social Security beneficiaries, the benefits that SSI recipients receive are not based on an earnings history.

In December 2002, more than 780,000 individuals aged 65 and older received both Old Age Survivors and Disability Insurance (OASDI) and SSI benefits, representing about 3 percent of all OASDI recipients. Of these concurrent beneficiaries, approximately 35 percent were receiving SSI benefits because they were blind or disabled, while 65 percent were receiving SSI benefits because they were aged 65 and older. Moreover, about 60 percent of the concurrent aged and SSI beneficiaries were female. Additionally, for the concurrent Disability Insurance (DI) and SSI beneficiaries, more than half were female and about 60 percent had mental impairments.

To improve service and coordination between the DI and SSI Programs, GAO[2] recommended that SSA:

- develop procedures and integrated guidance to ensure information about work activity is collected and shared between DI and SSI Programs;
- develop comprehensive systems to monitor the progress of DI cases as they move between SSA components and set timeliness goals for the entire process for each action and component; and
- develop public information materials targeted to concurrent beneficiaries that explain the complex interaction of the two programs in language that beneficiaries can understand.

Question: You discussed how workers do not make any additional contributions to Social Security to provide benefits for eligible family members—spouses, children, and parents. As a result, families receive higher returns from Social Security than single workers. Would you also agree that in some cases, family benefits make Social Security less progressive than the benefit formula alone would indicate? For example, a low-earning male (earning about $16,500 in 2005) reaching age 62 this year can expect an inflation-adjusted rate of return equaling 2.87 percent from Social Security. In contrast, a one-earner couple with high earnings (earning $59,000 in 2005) reaching age 62 this year receives an inflation-adjusted rate of return equaling 3.73 percent. Do you believe this is something Congress should examine as part of strengthening Social Security for vulnerable populations? What options are there to improve equity in benefits, and what are the tradeoffs?

Answer: By design, Social Security distributes benefits and contributions across workers and their families in a variety of ways. These distributional effects illustrate how the program balances the goal of helping ensure adequate incomes with the goal of giving all workers a fair deal on their contributions. While this redistribution typically works well, there are some cases when this may not be true. In particular, recent societal changes suggest that the Social Security system as it is currently designed may not be as effective as it could be in addressing the needs of our society, for example, in the area of spousal and survivor benefits. As noted in my testimony, the increase in women in the workforce and two-earner couples raises questions about the equity of the current design of the spousal benefit for working women. Under the current program, non-working spouses can receive a

[1] States have the option of supplementing their residents' SSI payments. This state-supplemented SSI payment may be administered by the state, or states may choose to have the additional payments administered by the federal government.

[2] See *SSA Disability: Enhanced Procedures and Guidance Could Improve Service and Reduce Overpayments to Concurrent Beneficiaries*. GAO–02–802. (Washington, DC: Sept. 5, 2002).

spousal benefit even though they had no covered earnings of their own. Working spouses can be entitled to a benefit based on their own earnings record that is equal to or less than the benefit they are entitled to on their spouses' earnings records. So the household benefit in such cases could be no greater than if such spouses had never worked. When a woman who had worked becomes widowed, her total household income could potentially be cut much more deeply if she were receiving a retirement benefit based on her own earnings while her spouse was alive, compared to a widow whose benefit was based only on her spouse's earnings. Thus two-earner couples may question whether they are receiving an adequate return on their contributions.

Options for improving equity include enhancing benefits for specific groups, such as low earners. While such enhancements could improve equity, they could also increase cost and administrative complexity.

In light of the program's long-term solvency problems, it is important to take remedial action sooner rather than later, but it is also important to consider all aspects and elements of the program. The solvency and sustainability of Social Security should be addressed within the context of the program's role of protecting vulnerable populations, while at the same time considering how carrying out that role may need to change to better address changing societal needs.

Question: You mentioned the potential for slower economic growth in the future, due to slower labor force growth. Could you elaborate on this trend, and options for modifying Social Security to encourage work among seniors who want to continue working? What are the tradeoffs involved with those options?

Answer: The aging of the baby boom generation (those born between 1946 and 1964), increased life expectancy, and falling fertility rates pose serious challenges. These trends will affect the size and productivity of the U.S. labor force and its output and will have real and important impacts on employers and the economy. Without a major increase in productivity or higher than projected immigration, slow labor force growth will lead to slower growth in the economy and to slower growth of federal revenue. This in turn will intensify the overall pressure on the federal budget. Continued economic growth is critical to addressing the challenge of an aging society. One of the potential policy changes that could address both the demographic shift and the need for robust economic growth is assisting older workers who want to stay in the workforce past retirement age.

Many factors influence workers' retirement and employment decisions.[1] Although some people can benefit by remaining in the labor force at later ages, others may be unable or unwilling to do so. For those who are able, there are many factors that influence their choices, including eligibility rules of both employer pension plans and Social Security, their health status, the need for health insurance, the employment status of their spouses, and personal preferences.

Strategies to extend the careers of older workers include rehiring retirees, providing reduced work schedules, flexible work arrangements, and job-sharing. However, these strategies are not yet widespread even though the majority of older workers are interested in them. Evidence suggests that once workers retire, it might be difficult to entice them back into the labor force. Additionally, flexible work arrangements—including reduced work schedules and job-sharing—are often provided on an ad hoc basis and to limited groups of employees. The employees involved in these arrangements tend to be skilled workers with an expertise for which an employer has a special need. Thus, employers may not wish to offer these arrangements to all workers. Congress has already provided an incentive for older workers to continue working by repealing the earnings test for individuals at or above the full retirement age. This change allows older workers to continue working without any reduction in their Social Security benefits. However, workers still have to pay taxes on their earnings, which could be a disincentive to continued employment.

Another consideration is employer demand for older workers. Employers' perceptions or biases against older workers may form potential barriers to older workers' retaining their current jobs, finding new jobs, or reentering the workforce after retiring. For example, employers may feel that it is more difficult to recoup the costs of hiring and training older workers. All other things being equal, older workers can also raise an employer's cost of providing health insurance. Further, older workers may face obstacles because of perceptions among employers about their reduced productivity.

Question: The GAO has published many reports about issues relating to pensions. As we think about strengthening Social Security, what do we

[1] See *Redefining Retirement: Options for Older Americans*. GAO–05–620T. (Washington, DC: April 27, 2005).

need to keep in mind in terms of how changes to Social Security may affect pensions and other retirement saving?

Answer: In seeking to strengthen Social Security, policymakers will need to consider how any changes to the system will affect overall economic security in retirement, which requires adequate retirement income—Social Security, pensions, personal savings, and earnings from continued employment. With respect to employer-sponsored pensions plans, the question is how best to encourage wider pension coverage and adequate and secure pension benefits. Currently, only about 50 percent of workers have an employer-sponsored pension plan to supplement their Social Security benefit. For those workers who do have pensions, however, the structure of those plans has changed over time. More and more employers are switching from defined benefit (DB) to defined contribution (DC) plans. In doing so, they are shifting an increasing share of the responsibility for providing retirement income from the employer to the employee. DC plans have lower participation rates than DB plans because many DC plans require the employee to opt for coverage, whereas most DB plans enroll participants automatically. Additionally, increasing costs of other benefits, such as health care, are making employers less willing or able to increase other forms of compensation packages, including pensions. As a result, employer-sponsored pensions may provide workers with a smaller share of retirement income than they have in the past.

GAO's work on pensions and pension reform has noted that efforts to reform Social Security are occurring as our Nation's private pension system is also facing serious challenges. A number of large underfunded traditional defined benefit plans—plans where the employer bears the risk of investment—have been terminated by bankrupt firms, including household names like Bethlehem Steel, US Airways, and Polaroid. These terminations have resulted in thousands of workers losing promised benefits and have saddled the Pension Benefit Guaranty Corporation, the government corporation that partially insures certain defined benefit pension benefits, with billions of dollars in liabilities that threaten its long-term solvency. Meanwhile, the number of traditional defined benefit pension plans continues to decline as employers increasingly offer workers defined contribution plans like 401(k) plans where, like individual accounts, workers face the potential of both greater return and greater risk.

A common feature of many Social Security reform proposals is the creation of a system with individual accounts. The choice to include individual accounts as part of broader reform could fundamentally alter the defined benefit aspect of current Social Security benefits and shift responsibility for at least some portion of Social Security benefits to the worker. In light of the current challenges facing the private pension system, it may be important in restoring financial solvency and stability to Social Security to consider the extent to which retirement income risk and responsibility are spread across government, employers, and workers.

Questions from Chairman Jim McCrery to Carrie L. Lukas

Question: Social Security's tax revenue is expected to fall short of promised benefits starting 2017, according to Social Security's trustees. Social Security is authorized to continue paying full benefits by cashing in the Treasury IOUs in the trust funds. However, this will require the government to either raise taxes, cut other spending (a large and growing portion of which is devoted to Medicare, Medicaid, and other programs important to seniors), or borrow at record-breaking levels. The longer we wait, the larger the changes that will be required to achieve solvency. Given these facts, do you believe Congress should wait, or should act as soon as possible?

Answer: Congress should act as soon as possible to address Social Security's financial shortfall. Not only will timely action make achieving solvency more feasible, but every day that we wait is a day that young men and women are not able to use a portion of their payroll tax to accrue real savings.

Question: Under current law, one-earner couples are treated more generously than two-earner couples with the same total earnings. Do you believe Congress should make changes to equalize the treatment of one-earner and two-earner couples/ If yes, what changes would you recommend?

Answer: In reforming Social Security, Congress should strive to create a greater link between what you pay into the system and what you will receive out in benefits. The best way to accomplish this is by creating a system of personal retirement accounts so that workers actually own the money that they are putting into the system and would be able to watch their contributions grow and accumulate during their lifetime.

This would be particularly important for two-earner couples, since often times the payroll taxes paid by the second-earner—typically a working wife—end up resulting in no additional benefits at retirement. Incorporating personal accounts into Social Security would begin to address this problem and allow working women to know that their contributions will improve their lifestyle at retirement.

Question: You have discussed many ways in which control and ownership of personal accounts would help equalize treatment of women in Social Security. The President has advocated voluntary personal accounts. Therefore, some women may choose to remain entirely in the traditional program. What changes to the traditional program would you recommend to increase fairness for women?

Answer: First and foremost the most important change that can be made to protect women is to address Social Security's solvency issue. Progressive indexing is important for that reason, since it will help put Social Security on the road to solvency while protecting the benefits of the worse off, who are disproportionately women.

We also need to find a way to more fairly treat divorces so that those who divorce before 10 years still have some right to their husband's Social Security benefits. However, I hesitate to recommend any other tactics that would tinker with the defined benefit system. It is tempting to want to increase benefits for specific groups, but we must remember that these benefit increases require tax increases on another group. We need to think carefully before increasing Social Security's implicit liability. We already have promised away a significant portion of our children's future earnings to pay for these entitlement programs. Do we really want to make these entitlement more generous if that only increases the amount of future earnings being transferred from the young to the old? I don't think so.

Also, the existence of voluntary personal accounts will help create a fairer system since women who feel they are being unfairly treated by the old system will have new options.

Question: You mentioned that one advantage of personal accounts is that they would continue earning returns on investment even during times when women leave the workforce or reduce their work to care for children or other family members. However, the contributions they could have been making during that time would be lost, leaving them with lower account balances than they would have had otherwise. Do you have any recommendations to help women make up the difference (allow women to make "catch-up" contributions)?

Answer: Congress could consider giving women the opportunity to make "catch up" contributions once they return to the workforce so that they would be able to put a larger portion of their payroll taxes or additional pre-tax money into the account to compensate for time spent out of the workforce. Alternatively, Congress could allow another party, such as a husband, to make pre-tax contributions to his spouse's account while she is staying at home so that she can continue to accrue retirement savings at the same rate that she was before leaving the workforce.

Question: In your testimony, you raised the issue of how women may be left to start from square one in saving for retirement if they were married, stayed home to raise children, and then were divorced before 10 years of marriage (note: a marriage must last at least 10 years in order for a divorced spouse to collect benefits on an ex-spouse's record). What do you think is the best way to help women in such situations?

Answer: Creating a system of personal accounts is the best way to ensure that the stay-at-home mom is protected in the event of divorce. Personal accounts would be owned by the individual. In the event of divorce, the assets in this account would be considered joint property divisible upon divorce. This would be an important protection for the stay-at-home mom.

Question: Your fellow panelist, Ms. Campbell, cited concerns that women would get smaller annuities in the private market than men, due to their longer life expectancy. She also cited concern about the financial stability of companies providing annuities. However, many plans that have been introduced in legislation so far would have the government provide the annuity, or would have an independent board contract for annuity providers similar to how they are contracted for Federal workers and Members of Congress participating in the Federal Thrift Savings Plan. Do you believe this should address these issues, or do you have addition recommendations in this area?

Answer: I believe this proposal should address this problem. By allowing the government to either provide the annuity or regulate the annuity market, policymakers can create a system so that annuities do not take the gender of the annuity purchaser into account.

Question: Ms. Campbell raised concerns about how personal accounts would be divided at divorce. For example, should the law require the accounts to be divided equally at divorce, or should it be left to the discretion of the courts? If personal accounts are associated with a benefit offset, should that change how accounts are treated at divorce? What are your recommendations?

Answer: In order to ensure fairness and that all women have assets necessary for retirement, the government could require that the assets in the account be divided equally upon divorce. Therefore, if the woman is going to receive a defined benefit based on her former spouses reduced benefit, she will be compensate for that offset through the personal retirement account.

Questions from Chairman Jim McCrery to Marty Ford

Question: Social Security's tax revenue is expected to fall short of promised benefits starting 2017, according to Social Security's trustees. Social Security is authorized to continue paying full benefits by cashing in the Treasury IOUs in the trust funds. However, this will require the government to either raise taxes, cut other spending (a large and growing portion of which is devoted to Medicare, Medicaid, and other programs important to seniors), or borrow at record-breaking levels. The longer we wait, the larger the changes that will be required to achieve solvency. Given these facts, do you believe Congress should wait, or should act as soon as possible?

Answer: Congress should move slowly and cautiously in this area. Social Security is too important to the people who need it now or will need it in the future, to rush to any resolution that undermines the long-term viability of Social Security and the important benefits that it provides. This is not a "now or never" proposition. Some modest changes will be needed to ensure long-term solvency. However, the changes needed must not undermine the social insurance nature of Social Security or increase risks or shift the burden of risk to those who will need to rely upon Social Security in the future. And, it is essential that any changes, regardless of how modest, protect the intergenerational nature of Social Security, a characteristic that is so important to people with disabilities and their families, including workers with disabilities, disabled widows, and disabled adult children. Getting the right modest changes is worth the extra time that will be needed to resolve the issue. These are steps that Congress can take long before the solvency issues become a reality.

Question: Social Security's benefit formula is designed to be relatively more generous to low-wage workers than high-wage workers. Do you believe this principle should be maintained? Do you believe the progressivity of the benefit formula should be enhanced?

Answer: The current progressive nature of Social Security's benefit formula should be maintained. It has served to provide lower income earners with a higher replacement rate on their lifetime earnings than higher income earners receive. Yet it has ensured that higher income earners are suitably rewarded for their higher lifetime earnings with higher retirement benefits.

Great care must be taken not to disturb this balance and the broad support that Social Security enjoys throughout our society. In addition, care must be taken not to disturb the dependents' benefits that flow from the work records of higher income earners. While some might argue that higher income earners can afford to receive an even lower replacement rate on their lifetime earnings, such claims do not necessarily hold true for their dependents, including disabled adult children, disabled widow(er)s, and spouses.

Question: During the 107th Congress, this Subcommittee originated legislation (H.R. 4069) that would have enabled more disabled widows and divorced spouses to become eligible for benefits. This legislation would have helped an estimated 120,000 people—primarily women—and it was approved by the House of Representatives. One of the provisions in that legislation would have repealed a time limit that applied to disabled widow(er)s applying for benefits. Under current law, a disabled widow(er) may only collect benefits if she or he is at least age 50, and the disability began within 7 years of the worker's death. Are there particular policy reasons for these restrictions, and do you believe these restrictions should be repealed?

Answer: We believe that Congress imposed these restrictions in order to provide disability benefits to a limited number of widow(er)s who would not be eligible for worker's disability benefits because of their limited work histories, often as a result of working inside the home to raise children, rather than working outside the home

in Social Security covered employment. The 7 year period runs from the worker's death or from the last time the widow(er) received Social Security mother's/father's benefits on the same wage earner's record while caring for the worker's minor children after the worker's death.

We support steps to modify or eliminate these restrictions. If a person stayed home and cared for the couple's children (during the marriage and/or after the worker's death), it is likely that the benefit s/he could receive as a disabled worker would be low due to the many "zero" years in the work record. If s/he does have a substantial work record because she also worked outside the home while raising children, then it is much more likely that she would receive Social Security disabled worker's benefits on her own record, rather than a benefit on her deceased spouse's record, unless she is unable to meet the recency of work test.

We believe that the cost to improve the rules for qualifying for disabled widow(er)'s benefits would be modest. As a practical matter, more women now have work records of their own and are likely to receive payment on their own accounts. It also would have no effect in most households in which the couple had fairly equal earnings. Meanwhile, for those who do not have a significant work record of their own—most likely as a result of caring for children or inability to work as a result of the disability which is the basis for the application (or both), improving the rules would provide them with much-needed cash assistance and access to Medicare (which they would not otherwise have until they turn 65).

Question: Under current law, there is what is called a "special minimum benefit." This benefit is granted to workers with at least 30 years of earnings at a minimum level ($10,035 in 2005). The maximum benefit equals about 85 percent of the poverty threshold. Since this minimum benefit is indexed to the CPI (prices) while the regular benefit formula is indexed to wage growth—and wages generally grow faster than prices—fewer and fewer workers are qualifying for the special minimum benefit. Today, about 120,000 beneficiaries receive the special minimum benefit. Do you believe Congress should improve the minimum benefit that applies to long-time low-wage workers? If so, what changes would you recommend?

Answer: Social Security is a very effective anti-poverty program. But 10 percent of seniors still live in poverty and the poverty rate is even higher for some groups, like widows. A few simple, inexpensive changes would make Social Security substantially more effective.

One of these changes is the creation of a genuine minimum benefit. This minimum benefit should ensure that no American who works hard for an entire career has to retire in poverty. The benefit should be set at something like 120 percent of poverty for retirees who worked for 40 years and phased down for people who worked fewer years (the work requirement should be shorter for people with disabilities). In addition, this benefit should grow with wages—like the other parts of the Social Security system—to ensure that it remains a robust and dignified source of income into the indefinite future.

In addition, Social Security benefits should be expanded for widows and widowers. Under current law, a widow gets a 33 to 50 percent lower benefit than was previously enjoyed by the married couple. Although a single person can afford to live on a somewhat lower monthly check than a married couple, these reductions are too large and plunge many widows into poverty. A sensible reform would ensure that lower income widows get 75 percent of the couple's benefit.

Finally, any Social Security reform should also strengthen the Supplemental Security Income program that is so vital to many seniors and people with disabilities. One important change related to strengthening the minimum benefit and the widow(er)'s benefit in Social Security would be to increase the $20 unearned income disregard in SSI. Right now, one-third of SSI recipients also receive a small Social Security benefit. By increasing the unearned income disregard, Congress would be giving greater value to the Social Security benefit (and other benefits, such as veteran's benefits) that some SSI recipients receive, effectively allowing them to retain more of the value of their Social Security benefit.

To the extent that the unearned income disregard in SSI is not increased as part of a package increasing the minimum benefit and the widow(er)'s benefit—or, if such an increase in the unearned income disregard is less than the amount of the increase in the minimum benefit or widow(er)'s benefit—it will be important to protect the Medicaid eligibility of those who will lose SSI as a result of the increased Social Security benefit, by deeming them eligible for SSI (see discussion below in #10).

Question: Under current law, an individual newly entitled to Social Security disability benefits must wait 5 months before checks may begin, and must wait 2 years to become eligible for Medicare. Could you explain why

these waiting periods were made part of the law? You mentioned reducing or eliminating these waiting periods. In order for Congress to consider the full range of options, would you also say eliminating these waiting periods only for the terminally ill is a step in the right direction?

Answer: When Congress extended Medicare to Social Security disability beneficiaries in 1972, the Ways and Means Committee and the Finance Committee both stated that the reason for including the waiting period was to "help to keep program costs within reasonable bounds, avoid overlapping private insurance protection, particularly in cases where a disabled worker may continue his membership in a group insurance plan for a period of time following the onset of his disability, and—provide assurance that the protection will be available to those whose disabilities have proven to be severe and long-lasting." [1]

There are strong arguments that the circumstances surrounding access to health insurance have changed so dramatically that this set of justifications are no longer applicable. For example, in its report for the Commonwealth Fund, Mathematica Policy Research suggests that the concerns about cost are mitigated by the fact that Medicaid is picking up about half of the cost that Medicare would incur if the waiting period were eliminated. In other words, in addition to providing health coverage for a large group of people with disabilities who have no health insurance, eliminating the waiting period would also benefit states because their Medicaid costs would decline as Medicare covered some of the costs states now incur.[2] In addition, because many people with disabilities tend to apply for Social Security as a last resort, they most often are unlikely to have any ongoing access to private insurance. Further, while COBRA continuation of benefits can help for awhile after a person leaves work, those benefits are contingent on the person being able to pay not only the employee's share of the insurance cost, but also the employer's share. For most people with disabilities, loss of their job means a dramatic decrease of income—a serious obstacle to paying high COBRA costs.

For many years now, there has been a significant national focus on encouraging people with disabilities who receive Social Security or SSI to attempt to return to work. Stabilizing one's health requires health care. Good health is key to a successful return to work. Failure to have access to health coverage undermines the person's ability to stabilize his or her condition and to attempt to return to work, where that is appropriate. A recent study for the Commonwealth Fund and Christopher Reeve Paralysis Foundation supports this position. Through interviews and focus groups with people with disabilities caught in the Medicare waiting period, the researchers reported that "most participants suffer irrevocable physical and mental deterioration during the waiting period." Further, "[w]hile many want to return to work, they are unable to do so." The vast majority of participants "see Medicare's 2-year waiting period as a barrier to work." [3]

It is important to reconsider the concerns of the 1971 Ways and Means Committee and the 1972 Finance Committee through this lens. If their main concern had been to create a system in which people with disabilities can get the health care they need and possibly have a better chance of returning to work and leaving the beneficiary rolls, would they have included the waiting period?

The Subcommittee also asks our opinion on extending the waiting period only to those who are terminally ill. We do not think that this is the right next step for the following reasons:

- Congress already has created two exceptions to the Medicare waiting period—there is no waiting period for those who have amyothropic lateral sclerosis (ALS), also known as Lou Gehrig's disease, and individuals with end-stage renal disease have a 3-month waiting period. These were important improvements—and reflect Congressional understanding that getting health care in a timely manner matters—but they leave most people with severe disabilities who are in the Medicare waiting period without access to the care they need.

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[1] *Social Security amendments 1971,* House Rpt. No. 92–231, U.S. House of Representatives, Committee on Ways and Means, May 26, 1971, page 67. The same language appeared in the Finance Committee's report, Senate Rpt. No.92–1230, page 178. CCD is indebted to the Commonwealth Fund's report for this legislative history. See Stacy Berg Dale, James M. Verder, *Elimination of Medicare's Waiting Period for Seriously Disabled Adults: Impact on Coverage and Costs,* The Commonwealth Fund, Issue Brief, July 2003, page 2 and footnote 3, available at http://www.cmwf.org/usr_doc/660_Dale_elimination.pdf.

[2] *Id.*, page 5.

[3] See Bob Williams, Adrianne Dulio, Henry Claypool, et al., *Waiting for Medicare: Experiences of Uninsured People with Disabilities in the Two-Year Waiting Period for Medicare,* The Commonwealth Fund and Christopher Reeve Paralysis Foundation, October 2004, available at http://www.cmwf.org/usr_doc/786_Williams_waiting_for_Medicare.pdf.

- Defining who is terminally ill and thus qualified will result in arbitrary line-drawing—is a person with cancer terminally ill? Must a person with cancer wait until the cancer has metastasized to get needed care when it is likely to be more costly and less effective and when earlier treatment might have ended the cancer and allowed the person to return to work? Are people with HIV considered to be terminally ill? Where is the line between conditions that are eventually terminal but now, because of advances in treatment, also are viewed as being chronic conditions for some people with the condition?
- What if a person is considered terminally ill, treatment is provided and successful, but the person is still in the 2-year waiting period? Will Medicare coverage for the life-saving treatment end, possibly triggering a relapse and death?

It is absolutely essential to provide Medicare as soon as possible for people with terminal illnesses. It is equally important to provide Medicare so that individuals who may be able to return to work with appropriate medical care and other supports are able to move back to work as soon as that is possible. The current 2-year wait for access to medical care means that far too many individuals find that their medical conditions deteriorate further, just at the time when access to good care could assist the person to attempt to return to work.

We enthusiastically support eliminating the Medicare waiting period for all individuals who have been determined to be eligible for Social Security benefits based upon disability. In addition, we urge the Subcommittee to consider eliminating or shortening the 5-month waiting period for receipt of Social Security cash benefits. Too often we learn of individuals who have exhausted their limited savings while awaiting a decision from SSA. Imposing an additional 5 month wait simply means that individuals and their families, already stressed by their health problems, their lack of health insurance, and their inability to meet basic expenses, are forced into destitution and/or bankruptcy while awaiting their benefits.

Question: In your testimony, you mentioned the balance that must be achieved between protecting benefits for individuals with disabilities while not creating pressure on the disability program by creating incentives to file for disability over retirement benefits. The disability program faces serious financial challenges—cash flow deficits that are expected to start this year, with the trust fund estimated to be exhausted by 2027. What are your recommendations for achieving this balance between the disability and retirement programs as we address Social Security's overall financial shortfall?

Answer: We recommend that the two trust funds, OASI and DI, continue to be addressed together as they have been so often in the past. While technically the Disability Insurance Trust Fund is separate and has a different timeline for solvency, in reality, Congress and the Administration have treated the two trust funds as one for many purposes. At times, Congress has authorized interfund borrowing to shore up one of the trust funds. For example, in 1982, the OASI Trust Fund borrowed assets from the DI and Health Insurance (HI) Trust Funds. Congress also has authorized different allocations of the Social Security tax rate, shifting the share between OASI and DI.

In addition, as we have stated in testimony, the programs are very closely related and people with disabilities move between them depending on their life circumstances. Treating the programs separately would result ultimately in more confusion and barriers for beneficiaries.

Question: You expressed concern that raising the retirement age would increase the number of workers applying for disability benefits. Could you elaborate on your concerns? Did you mean that if the retirement age is increased, then some individuals will be forced to accept lower retirement benefits if they cannot qualify for disability benefits? If so, do you have any recommendations for helping individuals who find themselves in that difficult position?

Answer: We are concerned that as the retirement age is increased, people in poor health with limited ability to continue working will be forced to apply for disability benefits rather than applying for retirement benefits. If that should occur in sufficient numbers, it could cause a fiscal strain on the disability program and create substantial future "unexpected growth" in the disability program with corresponding political pressure to "do something about the growth" in the program. These pressures could be damaging to the perception of integrity of the program and, consequently, to the beneficiaries who depend on disability benefits.

On the other hand, there are a considerable number of older workers in poor health who do not qualify for disability benefits, either because of the special disability insured status requirements or because of the stringent disability eligibility

rules. These individuals are at risk for jeopardizing their health further by continuing to work or by their lack of access to medical services.

The impact of changes in the retirement age on disability benefits has been the subject of discussion by policymakers. In September 2000, the Social Security Administration and the National Academy of Social Insurance cosponsored a research symposium on this issue, *Disability, Health and Retirement Age: Challenges for Social Security Policy*. A study presented at the symposium showed that a substantial number of individuals use Social Security early retirement benefits as a replacement for disability benefits, for which they are not eligible. A majority of these individuals are women who do not qualify for disability benefits because of their work history. To address this group of older individuals who are severely impaired, options were presented for discussion by policymakers, including: (1) liberalize the "recency of work" ("20/40") rule for disability insured status; and (2) modify the disability eligibility rules for those age 62 to 64. Also discussed were policy changes affecting Medicare eligibility. We have not taken a position in this area but note that this merits further consideration.

Question: We appreciate your suggestions on closely examining administrative issues related to personal accounts. Also, you made an important point that Congress should obtain a "beneficiary impact statement" on proposals to strengthen Social Security. Could you elaborate on what information you think Congress should request in such a statement?

Answer: A beneficiary impact statement should analyze the impact of any proposed changes for each type of beneficiary:

- Disabled workers/their dependents
- Retirees/their dependents
- Disabled adult children—dependents of parents who retired, died, or became disabled
- Disabled widows and widowers

So many people are affected by Social Security that it is essential for policymakers to look beyond only the financial implications of making changes. They must understand the actual impact of a proposal on people's lives and the important role that Social Security benefits serve in paying for housing, food, clothing and other necessities. The Government Accountability Office, in testimony before this Subcommittee on June 23, 2005, recommended a similar analysis.[1]

We view the beneficiary impact statement in a similar way as the budgetary impact statements from the Congressional Budget Office (CBO). Congress does not act on legislation without an estimate of the budgetary impact of the bill provided by the CBO. Likewise, we believe Congress must also require a beneficiary impact statement so that the impact on people is known before Congress takes any action in Social Security.

Question: In your testimony, you mentioned that there are significant opportunities to improve rules in Social Security, Supplemental Security Income, and Medicaid to encourage young individuals with disability to work. You also mentioned current law discourages individuals receiving benefits as "disabled adult children" from working. Could you elaborate on some of the disincentives under current law and your recommendations?

Answer: We are attaching two documents. The first document is a summary of recommended changes to the Ticket to Work and Work Incentives Improvement Act that was previously submitted to Subcommittee staff by the CCD Work Incentives Implementation Task Force. Most, if not all, of those proposals would make many of the changes needed to encourage young people with disabilities to work. For example, changing the rules for impairment-related work expenses to include health insurance premiums would recognize the higher medical costs incurred by working individuals with disabilities who must pay premiums to participate in the Medicaid buy-in or continued Medicare after the termination of free part A benefits. In addition, the resource limits in SSI pose a threat to workers with disabilities who would like to earn their way off of cash benefits but fear losing access to Medicaid's supports and services. Encouraging individuals to work again as soon as possible after reinstatement to the benefit rolls would be facilitated by eliminating the 24-month waiting period before certain work incentives are available. The second document includes a short list of recommended changes in Social Security, SSI and Medicaid targeted specifically at youth with disabilities.

The Social Security Administration is conducting several demonstration projects that could have a bearing on this issue. SSA's examination of early intervention

[1] *Social Security Reform: Considerations for Individual Account Design*, GAO–05–847T (June 23, 2005), p. 13.

strategies is intended to identify supports that will keep people in the workforce rather than enter the benefit rolls. In addition, SSA's study of a gradual reduction of SSDI benefits as earnings rise—the so-called 1-for-2 offset demonstration—is intended to address the current "cash cliff" as a work barrier in that program. If these demonstration projects keep people with disabilities in the workforce and reduce their reliance on benefits, Congress should act promptly on those positive results.

Work Subsidies. There is another work disincentive for disabled beneficiaries that could be resolved through regulatory change, although statutory clarification could be helpful. We understand that SSA's interpretation regarding the value to be placed on a worker's work effort (regarding whether it exceeds SGA or not) is different for people in supported employment depending upon whether the individual is supported directly by an employer or whether the individual is supported by services from an outside source, such as a state-funded supported employment agency. As a result, an individual's work effort could be found to exceed SGA when the support is from a third party while that same work effort could be found not to exceed SGA when the support is from the employer. From the perspective of the individual, this is an arbitrary distinction. However, the result could be critical, for instance, if the individual is found not to be eligible for Disabled Adult Child benefits because s/he exceeded the SGA level in the past. Further, there may be additional complications in that the nature and scope of the support provided to the individual may be misunderstood when making the valuation of work effort. For instance, while the individual may be performing the actual task (bagging groceries, assembling a package, and so forth.), it may be that the individual would be unable to perform the task without the help of the job coach in ensuring that the individual arrives at work on time properly attired, that he/she interacts appropriately with customers and co-workers, and that he/she remains focused on the assigned job tasks, among other things. SSA appears to make a distinction between subsidies/non-subsidies depending on whether the job coach does actual "hands-on" work or coaches from the side. We believe that this is an area that also needs clarification if disabled beneficiaries are to use work incentives in Title II to their full capacity.

Congress should extend benefits pending appeal protection to those disability beneficiaries terminated due to earnings. In *Mathews v. Eldridge*, 424 U.S. 319 (1976), the United States Supreme Court held that a Title II beneficiary had no constitutional right to an evidentiary hearing before disability benefits were terminated. In contrast, *Goldberg v. Kelly*, 397 U.S. 254 (1970), established such a right for welfare benefits, such as SSI. During the termination crisis in the early 1980's, the need for a hearing before Title II disability benefits could be terminated became very apparent. As part of the legislation passed in 1984, Congress included the right to receive benefits pending appeal of a termination based on disability cessation. This is the protection provided in 42 U.S.C. § 423(g).[1] Unfortunately, the protection does not extend to situations where benefits are terminated due to earnings above the substantial gainful activity level. At the time, this made sense as the continuing reviews that were the focus of Congressional concern did not affect people whose earnings might make them ineligible for benefits. But, with the increased emphasis on return to work and the increased risk that disability and work issues become muddled in some cases, benefits pending appeal itself becomes an important work incentive protection. A person with a disability who may want to attempt to work will be assured to know that, should SSA determine that s/he is no longer eligible for benefits, regardless of the reason, s/he can request benefit continuation through the ALJ level.

In the Ticket to Work and Work Incentives Improvement Act 1999, Congress passed some new protections for individuals who work. For example, effective January 1, 2002, SSA will not conduct a continuing disability review of a disabled beneficiary based on work activity alone. This provision applies to beneficiaries who have received Social Security disability benefits for at least 24 months. SSA will still conduct regularly scheduled CDRs, unless the beneficiary is using a Ticket to Work. These provisions do not preclude termination of benefits where earnings are above the SGA level, after the trial work period and extended period of eligibility have been met. The 1999 legislation did not include extension of the benefits pending appeal provision in 42 U.S.C. § 423(g) to terminations based on earnings. We urge Congress to add this extension at this time.

Disabled Adult Child Issues. We have recommended that Congress consider addressing the situation of people who receive SSI and who are likely to receive DAC benefits in the future when their parents retire, die, or become disabled. If the individual with disabilities earns above the SGA level at any time before applying for

[1] Congress first enacted this protection with a short sunset in 1982 (P.L. 97–455, 96 Stat. 2497, signed January 12, 1983). The 1984 law made this a permanent provision in the statute.

DAC benefits, access to DAC benefits may be permanently barred. This is a substantial work disincentive for people who are severely disabled during childhood and who may need the benefits earned for them by their parents. But for the fact that their parents have not yet retired, died, or become disabled, they stand in the same position as those for whom a work incentive was included in the Social Security Protection Act of 2004, P.L. 108–203. This provision allows re-entitlement to DAC benefits after the existing 7-year re-entitlement period if the beneficiary's previous entitlement had terminated because disability ceased due to the performance of substantial gainful activity. We would be happy to work with the Subcommittee to explore possible solutions to the problem for individuals who work above the SGA level before applying for DAC benefits.

Disabled Adult Child and the Family Maximum . A related DAC issue, although not a work disincentive, should also be addressed. Where a disabled adult child is drawing benefits, the retired worker's spouse's benefits are adjusted to address the family maximum. In some cases, where the disabled adult child is not living in the same household with the retiree and spouse, the family maximum creates a hardship for the retired worker and spouse. This is because the retired worker and spouse receive lower combined benefits than they would have received if the disabled adult child were not also drawing benefits on the retired worker's account.

If the three (or more) beneficiaries were living in the same household, expenses and income could be shared as a family. However, increasingly, people with disabilities are being supported to live more independently and often a person drawing disabled adult child benefits is not living with his/her parents. Therefore, expenses are not shared, yet the retiree and spouse experience reduced monthly income.

To resolve the situation for the retiree and spouse (or widow(er)), Congress should consider exempting the disabled adult child's amount from the family maximum calculation when the disabled adult child is not living in the same household with the retiree and spouse (or widow(er)). This would follow somewhat the precedent established by treatment of a divorced spouse: even though the divorced spouse draws from the retiree's record, the divorced spouse's benefit does not affect the family maximum and the benefits of other family members.

Question: Several plans that have been introduced in legislation so far would enhance benefits for low-wage workers and widow(er)s. However, increases in monthly benefits relative to those paid under current law could result in some individuals not qualifying for Medicaid or other need-based programs where they would have before. Do you have any recommendations on this issue?

Answer: It is important that the Subcommittee is considering this question at this stage in the legislative process. Adding the needed protection at the time of enactment of the benefit improvement eliminates the harm that can result when a person loses Medicaid and gains only a small increase in income. There is substantial precedent for protecting those individuals who, but for a change in the amount of their Social Security benefit, would remain eligible for Medicaid. We urge the Subcommittee to consider creating a similar rule in this case as well, with one important modification that will ensure that the provision is compatible with and encourages return-to-work efforts.[1]

We also urge the Subcommittee and Committee to consider increasing the SSI unearned income disregard. Fixed at $20 since the inception of the SSI Program in 1974, the unearned income disregard is worth only about $5 today. Increasing the disregard would help to protect the Medicaid of some individuals who otherwise might lose it due to an increase in Social Security while also restoring value to the Social Security benefits that SSI beneficiaries receive. If the unearned income disregard were to be increased, that could reduce or eliminate the number of beneficiaries who would lose SSI and jeopardize eligibility for Medicaid. If the amount of such an increase did not fully protect this population, it would be important to including a provision deeming any remaining individuals to be eligible for SSI so that they can continue to receive Medicaid.

Existing precedent for deeming SSI eligibility. Currently, there are four groups who are deemed to be receiving SSI so that they can continue to receive

[1] While we oppose changing the Social Security program to include private accounts, if such a proposal were to become law, it would be very important that it include a blanket provision excluding the private accounts from being considered as a countable resource in any federal benefit program that includes a means test. Similarly, funds (including interest) that accumulate in the private account should not be counted as income in any means tested determination. Otherwise, people who are now eligible for SSI and Medicaid could easily find themselves ineligible for these much-needed benefits.

Medicaid after becoming eligible for either a new Social Security benefit or an increased benefit.[2]

- People who would continue to be eligible for SSI (and/or a state supplement) if the total amount of their Title II cost-of-living adjustments received since losing SSI while also receiving Title II is deducted from their income. This group, known as the "Pickle People," has existed since the late 1970s.
- In 1983, Congress improved the formula for benefits for disabled widow(er)s. As a result, in 1984, a number of widows who previously received both Social Security and SSI suddenly lost their SSI and their connection to Medicaid. Congress changed the law to protect these widows, providing that they are deemed eligible for SSI (and therefore Medicaid) so long as the only reason they are ineligible for SSI is that change in the formula enacted in 1983. These individuals have been known as the "Kennelly widows."
- Known as "COBRA" widow(er)s, individuals in this group receive SSI disability benefits but then become eligible for a Social Security early widow(er)'s benefit, prior to age 65. (They are required to apply for this benefit as a condition of the SSI Program.) Upon receipt of the Social Security benefit, if it is over the SSI level, they would lose their SSI and, as a result, their Medicaid. And, because they are not receiving a Social Security disability benefit and are under age 65, they do not have Medicare. Congress changed this so that people who find themselves in this predicament are now deemed eligible for SSI and can continue to receive Medicaid until they reach age 65 and become eligible for Medicare.
- Medicaid is an essential component of being able to live in the community for many people with disabilities. This is often the case for young people whose disabilities began at birth or developed prior to their 22nd birthday. Prior to 1987, such a person would be receiving SSI, living in the community and receiving help from Medicaid. Then, when their parent died, retired or became disabled, the young person would suddenly become eligible for a Social Security benefit on the worker's record. Under SSI rules, the person must apply for and receive that benefit. They would receive a slightly higher cash benefit but would lose SSI and Medicaid—their connection to the services and supports they need to live in the community. In 1987, Congress provided that individuals who lose their SSI because they receive DAC benefits are to be deemed to be SSI eligible so that they can continue to receive Medicaid.

It is important to deem SSI eligibility for the remainder of the person's life. A key feature of three of the four provisions discussed above is that the person's Medicaid will continue as long as the person has SSI deemed status and, assuming that the person's income and resources otherwise do not change, the person can receive Medicaid for the remainder of the person's life. This is not the case in one of the precedents there, once the person begins to receive Medicare, the SSI deeming stops and Medicaid could end. Because Medicaid is essential to securing home-and community-based care, it is important that the protection created by the Subcommittee parallel those for the Pickle people, the DACs, and the Kennelly widows and allow for SSI deeming (and Medicaid coverage) so long as the person otherwise meets the eligibility rules for SSI.

One important work-friendly modification should be included: While these provisions have been essential to the individuals who benefit from them, particularly for younger individuals, like many DACs, the provision creates a constraint against attempting to work. Because the statute only provides protection when the *sole* reason the person's income exceeds the SSI level is the Title II benefit increase, working and having any earnings will automatically make the person ineligible for the deemed SSI status that protects his or her Medicaid. This is especially ironic, because if s/he had been solely an SSI recipient, the person would be able to benefit from the 1619(a) and (b) work incentives. This can be fixed by providing that SSI deemed status will continue so long as the person's only other reason for ineligibility is earnings from work.

Question: You raised the issue of how many different benefits are paid from the old-age and survivors' insurance trust fund—retired worker benefits, disabled adult child benefits, and survivor benefits. While several plans that have been introduced would hold harmless benefits paid to disabled workers, it has not been made clear how this applies to disabled

[2] For a more detailed discussion of these groups, see *Groups Deemed to be Receiving SSI for Medicaid Purpose: Technical Assistance Series for Medicaid Services to Elderly or People with Disabilities,* Center for Medicare and Medicaid Services, HHS, June 2002, available at http://www.cms.hhs.gov/Medicaid/eligibility/ssideem.pdf.

adult children being paid based on the record of a retired or deceased worker. Would you agree we need to make these distinctions clear in order to ensure all individuals with disabilities are protected, regardless of which trust fund pays the benefits?

Answer: We agree that it must be made clear that protecting disabled workers alone does not address the issues for other beneficiaries with disabilities. Other beneficiaries with disabilities include disabled adult children of retirees, disabled adult children who are survivors, and disabled adult children of disabled workers. Other beneficiaries with disabilities also include disabled widows and widowers and retirees who were once disabled workers. These dependent beneficiaries (and the workers who age into retirement benefits from the disability program) must be considered in any changes to the Social Security programs. They are among the most vulnerable Social Security beneficiaries.

Questions from Chairman Jim McCrery to Michael Tanner (Answers not received at time of printing)

Question: Under current law, one-earner couples are treated more generously than two-earner couples with the same total earnings. Do you believe Congress should make changes to equalize the treatment of one-earner and two-earner couples, particularly with respect to benefits for widows, as widows have a higher than average poverty rate?

Question: In 2000, Congress enacted the Senior Citizens Right to Work Act (P.L. 106–182), which eliminated the senior earnings penalty for individuals who reached full retirement age. Do you believe the remainder of the senior earnings penalty should be repealed? Would you discuss the pros and cons of eliminating the senior earnings penalty for early retirees?

Question: Some of your fellow panelists have said that establishing personal accounts would worsen Social Security's long-term funding problem. Do you agree?

Question: Your fellow panelist, Ms. Rockeymoore's testimony describes what the world would look like without Social Security. Could you outline what the world would look like with a Social Security program that includes personal accounts?

Question: Some of your fellow panelists have said that low-income workers, women, and racial and ethnic minorities would fare worse under personal accounts than they do under current law. Do you agree or disagree, and why?

Question: Some of your fellow panelists have said that personal accounts would undermine child survivor and disability insurance benefits provided under Social Security. How are these benefits treated under the Cato plan? What recommendations would you make to Congress with respect to those benefits?

Question: Some of your fellow panelists suggest raising taxes on high-wage workers, on high-income families, and on estates to bolster Social Security. Do you think such suggestions would leave unaffected low-wage workers, minorities, women, and other vulnerable populations?

Question: The Cato plan, which served as the basis for Rep. Johnson's legislation to strengthen Social Security, includes an enhanced minimum benefit. Could you describe how that minimum benefit would work and why you believe it is so important?

Question: Your fellow panelist, Ms. Campbell, mentioned a study that showed workers would most likely fare worse under personal accounts. However, that result was based on a portfolio of assets that has not been specified by President Bush or any other plan. It also assumed returns on stocks that are far below what is assumed by the non-partisan Social Security actuaries or the Congressional Budget Office. Would you agree that such a study is not a good indication of how individuals would fare under personal accounts?

Questions from Chairman Jim McCrery to Dr. Maya Rockeymoore (Answers not received at time of printing)

Question: Social Security's tax revenue is expected to fall short of promised benefits starting 2017, according to Social Security's trustees. Social Security is authorized to continue paying full benefits by cashing in the Treasury IOUs in the trust funds. However, this will require the government to either raise taxes, cut other spending (a large and growing portion of which is devoted to Medicare, Medicaid, and other programs important

to seniors), or borrow at record-breaking levels. The longer we wait, the larger the changes that will be required to achieve solvency. Given these facts, do you believe Congress should wait, or should act as soon as possible?

Question: Social Security's benefit formula is designed to be relatively more generous to low-wage workers than high-wage workers. Do you believe this principle should be maintained? Do you believe the progressivity of the benefit formula should be enhanced?

Question: During the 107th Congress, this Subcommittee originated legislation (H.R. 4069) that would have enabled more disabled widows and divorced spouses to become eligible for benefits. This legislation would have helped an estimated 120,000 people—primarily women—and it was approved by the House of Representatives.

- **One of the provisions in that legislation would have repealed a time limit that applied to disabled widow(er)s applying for benefits. Under current law, a disabled widow(er) may only collect benefits if she or he is at least age 50, and the disability began within 7 years of the worker's death. Are there particular policy reasons for these restrictions, and do you believe these restrictions should be repealed?**
- **Another provision in that legislation would have enabled certain divorced spouses to qualify for benefits sooner. Under current law, a divorced spouse may collect benefits based on her ex-husband's record, even if he is not yet collecting benefits, if the divorced has been in place for at least 2 years. This was intended to prevent people from seeking a divorce simply to gain access to spouse benefits. However, in some cases, the 2-year waiting period may cause hardship on divorced spouses. Would you agree the 2-year waiting period should be eliminated in cases where the worker remarries and it is clear the divorce was not a ruse simply to get spouse benefits?**

Question: Under current law, there is what is called a "special minimum benefit." This benefit is granted to workers with at least 30 years of earnings at a minimum level ($10,035 in 2005). The maximum benefit equals about 85 percent of the poverty threshold. Since this minimum benefit is indexed to the CPI (prices) while the regular benefit formula is indexed to wage growth—and wages generally grow faster than prices—fewer and fewer workers are qualifying for the special minimum benefit. Today, about 120,000 beneficiaries receive the special minimum benefit. Do you believe Congress should improve the minimum benefit that applies to longtime low-wage workers? If so, what changes would you recommend?

Question: Under current law, one-earner couples are treated more generously than two-earner couples with the same total earnings. Do you believe Congress should make changes to equalize the treatment of one-earner and two-earner couples, particularly with respect to benefits for widows, as widows have a higher than average poverty rate? Several legislative proposals would provide widows with benefits that equal 75 percent of what the couple received, subject to a cap based on an average retired worker's benefit. Do you believe this would be a step in the right direction?

Question: Congress enacted the Senior Citizens Right to Work Act (P.L. 106–182), which eliminated the senior earnings penalty for individuals who reached full retirement age. Do you believe the remainder of the senior earnings penalty should be repealed? Would you discuss the pros and cons of eliminating the senior earnings penalty for early retirees?

Question: Many women are concerned about receiving reduced retired worker benefits due to time spent away from the workforce taking care of children. Would you recommend providing a credit toward worker benefits for those years? If yes, how would you recommend designing such a credit?

Questions from Chairman Jim McCrery to Nancy Duff Campbell

Question: Social Security's tax revenue is expected to fall short of promised benefits starting 2017, according to Social Security's trustees. Social Security is authorized to continue paying full benefits by cashing in the Treasury IOUs in the trust funds. However, this will require the government to either raise taxes, cut other spending (a large and growing portion of which is devoted to Medicare, Medicaid, and other programs important to seniors), or borrow at record-breaking levels. The longer we wait, the larger the changes that will be required to achieve solvency. Given these

facts, do you believe Congress should wait, or should act as soon as possible?

Answer: While Social Security is running surpluses, and assets in the trust fund will continue to grow for another two decades, the rest of the federal budget is currently running huge deficits, and is projected to do so for years to come. And, after 2017, Social Security will no longer be generating the surplus tax revenues that currently help reduce the combined budget deficit. As I discussed in my May 17 testimony, Congress should act as soon as possible to restore the revenue base to get the rest of the government's fiscal house in order; this will make it easier on the rest of the budget when the time comes to redeem the Treasury bonds held by the Social Security Trust Fund.

Over the longer term, Social Security faces a financing shortfall. Social Security can pay 100 percent of scheduled benefits until 2041, according to the Social Security trustees, and until 2052, according to the Congressional Budget Office. After that, payroll taxes will cover 70–80 percent of scheduled benefits. This hardly qualifies as a crisis; in contrast, when Congress acted on recommendations of the Greenspan Commission in 1983 to extend the solvency of Social Security and buildup the trust fund, Social Security was within months of exhausting the trust fund and being unable to pay full benefits. While it is better to deal with the shortfall in Social Security sooner than later, to allow adjustments to be made more gradually, Congress has the time to get this right. The problem is manageable: indeed, the cost of eliminating the entire long-term (75-year) shortfall in Social Security is about the same as the cost of the tax cuts for just the wealthiest 1 percent of Americans, if those tax cuts were made permanent.[1]

Question: Social Security's benefit formula is designed to be relatively more generous to low-wage workers than high-wage workers. Do you believe this principle should be maintained? Do you believe the progressivity of the benefit formula should be enhanced?

The National Women's Law Center strongly supports the principle that the Social Security benefit formula should be relatively more generous to low-wage workers than high-wage workers. A progressive benefit formula is especially important for women, who tend to have lower lifetime earnings than men because of lower wages and more time out of the workforce for care giving. It is important to recognize, however, that progressivity is not the same as adequacy. For example, the benefit formula could be made more progressive—but less adequate for the vast majority of Americans—by cutting benefits for all but the very lowest earners. However, it is possible to enhance both adequacy and progressivity by targeting benefit improvements to the most economically vulnerable beneficiaries, and this is the approach the Center supports.

Question: During the 107th Congress, this Subcommittee originated legislation (H.R. 4069) that would have enabled more disabled widows and divorced spouses to become eligible for benefits. This legislation would have helped an estimated 120,000 people—primarily women—and it was approved by the House of Representatives.

- **One of the provisions in that legislation would have repealed a time limit that applied to disabled widow(er)s applying for benefits. Under current law, a disabled widow(er) may only collect benefits if she or he is at least age 50, and the disability began within 7 years of the worker's death. Are there particular policy reasons for these restrictions, and do you believe these restrictions should be repealed?**
- **Another provision in that legislation would have enabled certain divorced spouses to qualify for benefits sooner. Under current law, a divorced spouse may collect benefits based on her ex-husband's record, even if he is not yet collecting benefits, if the divorced has been in place for at least 2 years. This was intended to prevent people from seeking a divorce simply to gain access to spouse benefits. However, in some cases, the 2-year waiting period may cause hardship on divorced spouses. Would you agree the 2-year waiting period should be eliminated in cases where the worker remarries and it is clear the divorce was not a ruse simply to get spouse benefits?**

[1] The long-term cost of the tax cuts for the top 1 percent is greater than the long-term Social Security shortfall as measured by the Congressional Budget Office; the long-term cost of the tax cuts for the top 1 percent is more than three-quarters of the Social Security shortfall as measured by the Social Security trustees. See Kogan and Greenstein, Center on Budget and Policy Priorities, "President Portrays Social Security Shortfall as Enormous, but His Tax Cuts and Drug Benefit Will Cost at Least Five Times as Much" (February 2005).

Answer: Current law requires that disabled widow(er)s be age 50 to apply for benefits, and have a disability that began within 7 years of the worker's death. On their face, the main rationales for these restrictions appear to be the general goal of limiting the eligible population and the cost of providing such benefits. Originally, benefits for disabled workers were limited to workers ages 50 to 64, but although Congress eliminated the age 50 limitation for workers, it has not done so for disabled widow(er)s. Limiting benefits to disabled widower(s) whose disability began within 7 years of the worker's death prevents some of those who failed to qualify for disability benefits on their own work record—perhaps because they were out of the labor force raising children, were beginning to be affected by a disability, or both—from receiving benefits. Disabled widow(er) are, by definition, unable to work, and represent a small but economically vulnerable population. The National Women's Law Center would support removing the age 50 limitation (I note that H.R. 4069, passed by the House in the 107th Congress, did not include this provision) and the 7-year restriction (the elimination of the 7-year restriction was part of H.R. 4069).

As you note in your question, the policy rationale for the 2-year waiting period before a divorced spouse can collect benefits on the record of a worker who is not collecting benefits was to prevent sham divorces designed to permit the collection of spousal benefits. The Center supports the elimination of the waiting period in cases where the worker has remarried, as provided by H.R. 4069.

Question: Under current law, there is what is called a "special minimum benefit." This benefit is granted to workers with at least 30 years of earnings at a minimum level ($10,035 in 2005). The maximum benefit equals about 85 percent of the poverty threshold. Since this minimum benefit is indexed to the CPI (prices) while the regular benefit formula is indexed to wage growth—and wages generally grow faster than prices—fewer and fewer workers are qualifying for the special minimum benefit. Today, about 120,000 beneficiaries receive the special minimum benefit. Do you believe Congress should improve the minimum benefit that applies to long-time low-wage workers? If so, what changes would you recommend?

Answer: As your question recognizes, the special minimum benefit created by Congress in 1972 is diminishing in value; indeed, by 2013, it is expected to phase out entirely. The Center supports an increase in the minimum benefit for low-wage workers, as I testified on May 17. There are various options for improving the minimum benefit, including lowering the number of years required to receive the maximum benefit from 30 years to 25, lowering the earnings requirement to get credit for a year of service, counting partial years of service, counting caregiving years toward the special minimum, and increasing the amount credited for a period of service. There also are ways to adjust the regular benefit formula to increase benefits for low-income workers and their families. My written testimony discusses these options and provides citations to papers where they are analyzed in more detail; however, it would be helpful to have analyses modeling the effects of specific proposals on the overall economic security of low earners, considering both their individual work histories and whether they qualify for auxiliary benefits.

Improving the Social Security special minimum benefit could provide additional, much-needed income for low-income beneficiaries. But there could also be some unintended adverse consequences. Many low-income elders receive both a small Social Security benefit and Supplemental Security Income (SSI). Eligibility for SSI means automatic eligibility for Medicaid in most states. Increasing Social Security benefits could render some people ineligible for SSI—and thus for Medicaid. This could be avoided by increasing the $20 "unearned income" disregard in SSI, allowing SSI recipients who receive Social Security or veterans' benefits to retain more than $20 per month of the value of those benefits, and their SSI and Medicaid eligibility. Another approach that Congress has used is to deem certain groups to be receiving SSI for purposes of Medicaid eligibility, when individuals in those groups would otherwise lose SSI and Medicaid due to an increase in their Social Security benefits.[1]

Question: Under current law, one-earner couples are treated more generously than two-earner couples with the same total earnings. Do you believe Congress should make changes to equalize the treatment of one-earner and two-earner couples? Several legislative proposals would provide widows with benefits that equal 75 percent of what the couple received, subject to a cap based on an average retired worker's benefit. Do you believe this would be a step in the right direction?

Answer: The Center supports adjusting the benefit formula to increase benefits for surviving spouses to 75 percent of the couple's benefit. As I discussed in my May

[1] *See*, Center for Medicare and Medicaid Services, U.S. Department of Health and Human Services, *Groups Deemed to Be Receiving SSI for Medicaid Purposes* (June 2002).

17 testimony, such a change could help both to reduce the disparity in benefits between one- and two-earner couples with similar lifetime earnings, and improve the adequacy of benefits for widows, the largest group of poor, elderly women. However, not all of the proposals that create a 75 percent benefit for a surviving spouse would increase widow(er)s' benefits. Several proposals cut the underlying benefits, so that 75 percent of the couple's combined reduced benefits would amount to less than two-thirds of the couple's original benefit: this would not represent a real increase in the widow's benefit.

To reduce the overall cost of a proposal raising the widow(er)s' benefit to 75 percent of the spouses' combined benefits and to target the increases to those with lower earnings, the amount that a person could receive from the new alternative calculation of the survivor benefit could be capped. The cap could be set at different levels; setting the cap at the average retired worker's benefit, as suggested in the question, would provide less of an improvement to the adequacy and equity of benefits than setting the cap at a higher level (for example, at the level of the benefit for a retired worker with average lifetime earnings), although a lower cap reduces the overall cost.

As discussed above in response to question 4 concerning improvements to the special minimum benefit, Congress should avoid unintended adverse consequences from improving the widow(er)s' benefit by increasing the "unearned income" disregard in SSI and/or considering other steps to protect individuals from losing Medicaid eligibility.

Question: In 2000, Congress enacted the Senior Citizens Right to Work Act (P.L. 106–182), which eliminated the senior earnings penalty for individuals who reached full retirement age. Do you believe the remainder of the senior earnings penalty should be repealed? Would you discuss the pros and cons of eliminating the senior earnings penalty for early retirees?

Answer: Eliminating the earnings test for early retirees presents different issues than did the elimination of the earnings test for those who have reached full retirement age. Indeed, several studies have concluded that eliminating the earnings test for early retirees is likely to lead to increased poverty among the very old, especially women. This is because the elimination of the earnings test would encourage more workers to claim Social Security early—reducing Social Security benefits for themselves and surviving spouses later in life, when they have fewer other sources of income.

The earnings test reduces the Social Security benefits received by beneficiaries below the full retirement age (now slightly over age 65, increasing gradually to age 67) who have earnings above a given threshold. Although the earnings test is sometimes perceived as a "penalty" or "tax" on earnings, the benefits withheld under the earnings test are refunded after the worker reaches full retirement age, through an increase in benefits for the worker and spouse or surviving spouse, so that on average, lifetime benefits are not affected.[1] Separate from the earnings test, there is an early retirement reduction in monthly Social Security benefits for those who claim benefits before the full retirement age. This early retirement reduction is permanent; unlike the reduction due to the current earnings test, it continues after the individual reaches full retirement age, and reduces monthly benefits throughout the life of the retiree and the retiree's spouse and surviving spouse.

Several studies have concluded that eliminating the earnings test for early retirees is likely to encourage even more workers to claim Social Security benefits early.[2] Eliminating the earnings test would enable workers between age 62 and full retirement age to combine a paycheck and a Social Security check unaffected by the earnings test: an understandably appealing prospect. However, the cost of this increase in income for some retirees, when they are younger and have significant income from employment, is a reduction in Social Security income later in life, when they

[1] The higher benefits are actuarially adjusted, so that a worker whose lifespan is longer than expected will get back somewhat more than was lost through the earnings test; a worker whose lifespan is shorter than expected will get back somewhat less. The later increase in benefits under the earnings test for early retirees applies to benefits for both the worker and spouse; in contrast, under the now-eliminated earnings test for retirees above full retirement age, the later increase in benefits applied only to benefits for the worker, not the spouse.

[2] *See, e.g.,* Gruber and Orszag, " Does the Social Security Earnings Test Affect Labor Supply and Benefits Receipt," paper presented at the Third Annual Conference of the Retirement Research Consortium (2001); Ratcliffe, Berk, Perese, and Toder, AARP Public Policy Institute #2003–15, *Impact of the Social Security Retirement Earnings Test on 62–64–Year-Olds* (December 2003).

and their surviving spouse may have no paycheck or assets left to supplement it, and an increase in poverty among the very old.[3]

One argument that has been made for eliminating the earnings test for early retirees is that doing so would encourage more workers between age 62 and full retirement age to increase their labor supply. However, research indicates the elimination of the earnings test for early retirees would result in little if any overall increase in labor supply; while some workers would increase their work effort because they could retain more of their income, others would cut back, because they could cut back their work and still maintain their income level.[4]

There are other arguments for eliminating the earnings test: it is a source of confusion and irritation among some members of the public, who may—incorrectly—view it as a "penalty," and a source of added complexity and cost in the administration of the Social Security program. Better informational materials about the operation of the earnings test could reduce these impacts.

Question: Many women are concerned about receiving reduced retired worker benefits due to time spent away from the workforce taking care of children. Would you recommend providing a credit toward worker benefits for those years? If yes, how would you recommend designing such a credit?

Answer: Providing care giving credits in Social Security would recognize the value of unpaid care giving work and promote the economic security of those who provide this service. There are various approaches to providing care giving credits.[1] Given the diversity of work and family life patterns, it is important to fully analyze the effect of different approaches to providing care giving credits on the overall economic security of women, especially low earners.

For example, a majority of mothers today work in the paid labor force, at least part-time, including while their children are very young. Thus, proposals to allow "child care drop-out" years—excluding from the benefit computation formula up to 5 years of zero earnings when the worker was caring for a child below a certain age—would not help many low- and moderate-income women who cannot afford to leave the workforce entirely when their children are young. This approach also tends to benefit higher-earning women because the value of each "drop-out" year is equal to average earnings during the time spent in the paid labor force. Another approach to recognizing care giving would grant an earnings credit up to a certain amount—for example, up to half the median earnings for full-time workers—for years when a worker is providing eligible care giving. Providing a care giving credit would help those with low earnings (below the level of the credit) as well as those with zero earnings. Another way to target care giving credits to low-income workers would be to give care giving credits only in connection with a reformed special minimum benefit.[2] Other design issues to consider include the type of care giving that would be eligible for a credit (care provided only when a child was very young; care giving by a parent until a child turned 18; care for a disabled or elderly relative); number of years of possible credits; whether only a single parent or the lower-earning parent in a two-parent family would be eligible for a credit, or whether two parents could be eligible; and how these credits would be administered. In general, it would be easier to implement care giving credits in the context of the special minimum benefit, which affects only a limited population; but, for that reason, the number of potential beneficiaries would be limited as well. Additional research on these issues would be helpful.

Question: Your fellow panelist, Ms. Lukas raised the issue of unequal treatment of women in Social Security, depending on their marital status and the length of marriage. Under current law, the wife of a high-wage worker will get a higher monthly benefit than the wife of a low-wage worker, even though neither worker paid higher payroll taxes than unmarried workers of the same earnings level in order to provide extra coverage for their spouses. Do you believe this is fair, and would you recommend any

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[3] *See* Social Security Administration, Office of Policy, "The Impact of Repealing the Retirement Earnings Test on Rates of Poverty" (2000); Gruber and Orszag and Ratcliffe, Berk, Perese, and Toder, *supra.*

[4] *See* Gruber and Orszag and Ratcliffe, Berk, Perese, and Toder, *supra.* There is some information suggesting that eliminating the earnings test may have more of an impact on the labor supply decisions of women than men.

[1] For a discussion of care credits, see Hartmann and Hill, Institute for Women's Policy Research, *Strengthening Social Security for Women: A Report from the Working Conference on Women and Social Security* (2000).

[2] *Ibid*. For a proposal to provide child care credits with the special minimum benefit, *see* Fierst and Campbell, eds., *Earnings Sharing in Social Security: A Model for Reform*, Report of the Technical Committee on Earnings Sharing (1988).

changes to spousal benefits to better target them to individuals with the greatest need?

Answer: Social Security is a family insurance plan that replaces lost income for workers, and their spouses and children, when income is lost at retirement, disability, or death. The spousal benefits ensure that spouses—overwhelmingly women—who have devoted much of their lives to unpaid caregiving and have low, or no, Social Security benefits on their own work record are eligible for a benefit based on the earnings record of a spouse, whose earning capacity they contributed to through the marital partnership. Benefits for spouses are calculated as a percentage of the worker's benefit, and thus reflect the progressivity of the Social Security benefit formula; while the benefits for the wife of a higher-wage worker will be higher than the benefits for the wife of a lower-wage worker, the benefits for the wife of the lower earner will represent a higher percentage of the husband's pre-retirement income. The spousal benefits provided by Social Security are vital to women's economic security; as I noted in my testimony, about 55 percent of all women receiving Social Security get benefits at least in part as a spouse, surviving spouse, or divorced spouse.

There are various ways to improve the adequacy and equity of Social Security for women with different work histories and marital status. As discussed in response to question 5, providing a surviving spouse with a benefit equal to 75 percent of the couple's combined benefits, rather than 100 percent of the higher-earner's benefit, could increase benefits for widows and reduce the disparity in benefits for the survivor of single- and dual-earner couples; capping the increase would target the improvement to survivors of low-earning couples. Improving the minimum benefit, as discussed in response to question 4, would help women with low earnings who are ineligible for spousal benefits (and raise benefits for women whose husbands are low earners). To provide some benefit to women who divorce after a marriage of less than 10 years, the duration-of-marriage requirement could be lowered or the benefits for a divorced spouse could be pro-rated for marriages of less than 10 years.

The system of spousal benefits in Social Security could be redesigned entirely by instituting a system of "earnings sharing": dividing the credits accrued during marriage equally between husbands and wives. This would embody the concept of marriage as an economic partnership; however, the earnings sharing approach would produce winners and losers as compared to the current system, requiring a long transition period with benefit protections; special treatment would be required for benefits for children, disabled workers and their spouses, and spouses and surviving spouses with a child-in-care; and there would be new administrative demands.[1]

Question: Social Security's trustees have stated that Social Security faces significant long-tern financial challenges. If Congress fails to act, it would lead to a 25 percent across-the-board benefit reduction, with nobody held harmless, and would double the poverty level among senior women according to an analysis by the Social Security Administration. You suggested raising taxes. Do you have any recommendations on reducing the growth of benefits, particularly in a targeted way?

Answer: Benefit levels in Social Security are already modest; the *maximum* benefit for a worker retiring in January 2005 is less than $2,000 per month or $24,000 annually; the average benefit is less than $1,000 per month or $12,000 annually. Future retirees are already scheduled to get slightly lower replacement rates than current retirees, as a result of the benefit reductions legislated in 1983 that are now being phased in; rising Medicare premiums will take a greater portion of retirees' Social Security income. Social Security is the largest source of income in retirement for 80 percent of Americans—all but the highest-income 20 percent. For these reasons, relying heavily on benefit reductions to close the solvency gap could produce serious hardship. If benefit reductions are part of the overall approach, the reductions should be targeted to those at the highest income levels who are least reliant on Social Security. However, the cuts must not be so deep as to virtually eliminate the relationship between Social Security taxes paid and benefits received; moreover, the impact of such cuts should be considered across the full lifespan of both a worker and surviving spouse, including the impact on disability and survivor benefits.

Question: You suggested that we raise taxes to strengthen Social Security, as has been done numerous times in the past. You recommended raising or eliminating the limit on wages subject to Social Security taxes, raising income taxes on high-income individuals, or using revenues from estate taxes. The first suggestion would buildup Social Security's trust funds so that it has a larger claim on the Treasury and the rest of government in the future. The last two would require direct transfers of general revenues

[1] *See* Fierst and Campbell, *supra*.

to the trust funds. All of these suggestions would put a significant portion of Social Security's finances in direct competition for revenues with other budget priorities not just temporarily, but on an ongoing basis. Considering the importance of some of the largest of those other budget priorities—such as Medicaid and Medicare—to women and low-wage workers, do you think it is wise to create such a dynamic? Have you considered the effect on economic growth of such suggestions?

Answer: As the question notes, this nation faces a number of growing and unmet needs. Protecting Social Security should not, and need not, come at the expense of funding for Medicaid, Medicare, and other vital programs such as education and child care—if we strengthen the revenue base for Social Security and the broader federal budget. Social Security payroll taxes are imposed on a smaller fraction of all wages than they have been in recent decades, as wages for the very highest earners have grown much faster than average wages. This year, largely as a result of recent tax cuts, federal revenues will make up a smaller share of the economy than at any time since the 1950s. Recent tax cuts have particularly benefited the highest-income households, who have gained the largest increase in aftertax income of all income groups.[1] Corporate tax revenues are at historically low levels.

I am not an economist, but I believe that it would be feasible to raise revenues in ways that would not damage the economy, especially given the current low effective tax rates on the very wealthy and corporations, and the fact that history demonstrates that raising taxes does not necessarily harm economic growth (some tax increases have coincided with periods of strong economic expansion, and some tax cuts have provided little or no economic stimulus). Indeed, failing to raise adequate revenues poses risks to the economy that must be weighed against the perceived risk of raising revenues. We currently are bridging the gap between our 1950s revenues and our 21st century needs and expectations by borrowing, but this cannot go on forever. The growing national debt could lead to rising interest rates, or a more serious economic crisis if foreign creditors become reluctant to continue lending. But controlling the deficit by simply cutting domestic spending would hurt the economy, as well as millions of people. For example, cutting Social Security benefits by 20 percent or more for average Americans, as some proposals would do, would reduce purchasing power for tens of millions of Americans, affecting them, their families, and their communities; cutting back on other federal spending—and the services that contribute to building a healthy, educated, productive workforce that can compete effectively in the global economy—could jeopardize America's economy for generations to come. A solution to Social Security's long-term financial challenges, and the immediate fiscal challenges faced by the rest of the federal budget, must include increased revenues.

Question: You mentioned concern about reductions in benefit growth for high-wage workers, due to the effect it would have on spousal and children's benefits paid on the records of those workers. However, you suggested raising payroll taxes on some of those same workers. Have you considered the economic effect of your proposed tax increases on those workers' families and their ability to save for retirement, to educate their children, and so forth.? If so, what were your findings?

Answer: Workers who earn less than $90,000 per year pay payroll taxes on 100 percent of their wages, and have to pay current expenses and save for their retirement and their children's education out of their aftertax income. Higher earners pay zero payroll tax on wages above $90,000, and higher earners are also more likely to receive compensation in forms other than wages that are not affected by the payroll tax at all. In addition, the highest-income Americans have received the largest tax cuts and seen the greatest increases in their aftertax income in recent years. For all these reasons, those with earnings above $90,000 a year would be better able than lower income Americans to handle a tax increase.

Cutting Social Security benefits for high earners and their families would have a different impact than raising payroll taxes on high earners because of the different economic circumstances under which these events would occur. The increase in payroll taxes, by definition, would affect families when the worker is earning in excess of $90,000. In contrast, Social Security benefits are received when income is lost due to death, retirement, or disability. Social Security benefits replace only a fraction of lost earnings, and the loss of employment may also mean the loss of affordable health care coverage for the family. So a benefit cut for the family of a former high earner that now relies on Social Security benefits is likely to be far

[1] Friedman, Shapiro and Greenstein, Center on Budget and Policy Priorities, *Recent Tax and Income Trends Among High-Income Taxpayers* (April 12, 2005).

more painful than an increase in payroll taxes would be for the family of a current higher earner.

[Submissions for the record follow:]

Statement of Donald L. Anderson, Harpswell, Main

Stealing My Social Security

For years I received notices from Social Security that I would receive a certain pension amount from SS. I used this info in my retirement planning.

About three years before I retired, I learned at a State retirement seminar that that was not true. Not true if I were to receive a state pension. I was told SS would reduce my SS amount by about 60%. Of course, I learned nothing about this from SS!

Because of this shortfall, I continued working past my 65th birthday, though that was not my original plan. When I turned 65, I applied to start my SS pension and got the small amount of about $407/month.

I am now retired. SS has reduced my monthly payment by 56% because I am "double-dipping"—their word.

My word—STEALING. I earned that money. If I had a pension from a private employer, SS wouldn't reduce my SS pension. As I said, I was depending on that money for my retirement. I find it difficult to pay my bills without that money.

This is most unfair. It angers me. The government is reducing my pension so it has money to give to the top 5% for tax cuts. Or to fund that illegal Iraqi war.

SS is a safety net for tens of millions. By subjecting me to the unfair GPO/WEP provisions, Congress has cut a hole in my safety net.

I expect Congress to quickly repeal the GPO/WEP provisions.

Statement of William and Jane Blair, Irvine, California

Gentlemen,

Both my wife and I have spent many, many years working for various employers and have contributed significantly to social security during these years. Also, I have spent many years working for a county agency where I could not contribute to social security. My wife is now working for a school district where she can not contribute to social security.

Consequently, we will probably be ineligible to receive a pension check from social security. We are requesting that you repeal the Windfall Elimination Provision which is unfair to us and will adversely affect our lives.

Statement of William Hickman, Houston Young Republicans, Houston, Texas

HYR would like to thank the Subcommittee on Social Security for the opportunity to submit our comments regarding this critical subject. We are now at the point in the process where everyone agrees that Social Security has serious long term financing problems, and those in the legislative process are beginning to craft solutions.

We feel that possible approaches could be to:

1. Deny there is a problem and do nothing. This approach would lead to bankruptcy of the system in the near future and serious benefit cuts starting in 2041.
2. Kick the can down the road. Such an approach would postpone the problem, and allow a future generation in Congress to have this debate again.
3. Fix the problem. A permanent solution to the problem seems like the only common sense alternative. While each of the proposed solutions has costs and drawbacks, we need to make short term sacrifices so that the system can survive.

We will first make comments regarding each of the proposals that we have heard about, and then suggest some slight changes.

Pozen has suggested, and the President has embraced, a progressive indexing approach for wage indexing for those whose average career earnings are $25,000 or less, price indexing for those whose average career earnings are $113,000 or more, and a combined approach for those in the middle.

Pozen has stated that a personal account is intimately intertwined with solvency, as a retiree's burden on the system is reduced as the size of her personal account grows.

Pozen's progressive indexing strategy alone would take the second approach of kicking the can. While such an approach is politically appealing, it merely shifts the

burden to the backs of future laborers and does not fix the problem. However, a combined progressive indexing strategy with a "carve-out" PRA does solve the solvency problem.

Mr. Michael Tanner, Director, Project on Social Security Choice, Cato Institute has recognized the problem and stated that the "do nothing" approach is the same as a 27% benefit cut. He has stated that PRA's provide ownership, control, inheritability, and choice, providing workers a nest egg of real, inheritable wealth.

Tanner's proposal is an option of diverting half of taxes (6.2%) to a PRA, and the remaining employer's portion (6.2%) going to the Social Security "trust fund" to pay benefits for survivor's, retirees, and the disabled.

Tanner set forth a new minimum Social Security benefit, realizing that younger workers who chose an individual account option would be able to realize higher benefits than under traditional Social Security.

Others have also recognized that the solvency problem can be solved with large personal retirement accounts, which at the same time allow all workers to accumulate personal savings and large investments. These proposals would shift from a pay as you go system to an individual worker ownership system. All this could be achieved with no benefit cuts or tax increases.

The basic premise is to shift the retirement obligations of the system from the current trust fund to private accounts, with a minimum benefit guaranteed by the trust fund if the individual accounts are not large enough. This can be accomplished through a large investment into a personal account. Over time, as existing obligations of the trust fund are reduced, payroll taxes are reduced.

There are a number of proposals on how to finance the transition: a national spending limitation measure; additional taxes resulting from increased business activities financed by the personal account investments; and borrowing a portion of the personal accounts in the form of government bonds, to name a few.

Others have proposed to solve the financing problem by increasing the estate tax. This is actually the opposite of other proposals with personal accounts which create ownership, as the death tax destroys ownership between generations. Others have proposed increasing payroll taxes for those making over $90,000 and increasing income taxes (ie—rolling back the President's tax cuts). These approaches of punishing successful workers are actually the opposite of the reward provided by a personal account.

HYR's Proposal

Rather than reinventing the wheel, HYR proposes taking pieces of the above proposals to achieve a workable solution to the current problems faced by Social Security.

Some parameters we applied to our analysis are to maintain existing benefit levels for current retirees and those soon to retire, have no increase in payroll taxes, provide a minimum benefit for younger workers and future generations of at least the current benefit levels, and investigate the use of personal retirement accounts.

We found that Social Security has a ratio problem, where the ratio of workers to beneficiaries is bad and getting worse. The ratio was above 40 in 1945, is currently 3.3 in 2005, and will drop to less than 2 in 2060. This decreasing ratio causes costs to increase faster than income, such that by 2017, costs will exceed income and Social Security will be heading for a deficit, and by 2041, the trust fund will be exhausted, and benefits will have to be substantially reduced.

Several approaches are available to fix the ratio problem: Increase payroll taxes; decrease benefits; or "fix" the ratio by increasing the number of workers—or—decreasing the number of beneficiaries.

We think the best approach is to decrease the number of beneficiaries by replacing young worker's traditional benefits with a self-funded personal account. These workers' Social Security benefits will be self-funded, and they will not need benefits paid from the trust fund. We propose that all workers be allowed the option to participate in the personal account option.

A minimum benefit level for survivors, disabled, and retirees would remain, based on the current benefit amounts adjusted by wage and not price indexing, although the proposal could easily be adjusted by incorporating Pozen's progressive indexing to the minimum benefit level.

The proposal is very similar to Tanner's and other proposals discussed above, with slight modifications. We propose keeping taxes at 12.4% of payroll, while gradually increasing the portion going into a personal account over the next 50 years, such that during the years:

2005–2015—workers invest 3% into a personal account;
2015–2025—workers invest 4% into a personal account;
2025–2035—workers invest 5% into a personal account;

2035–2045—workers invest 6% into a personal account;
2045–2055—workers invest 7% into a personal account;
2055 and on—workers invest 8% into a personal account, with the remaining portions of payroll taxes paid into the Social Security trust fund.

Our preliminary analysis suggests that, starting in 2030, as workers born after 1965 start to retire, benefit costs begin to decrease to a manageable level. Social Security retirement benefits are eventually entirely self-funded out of personal accounts, with a minimum benefit remaining for disability, survivor, and low-income beneficiaries.

In the personal accounts, each worker will invest a minimum of 10% into each of the five funds government bond, private bond, large cap equities, small cap equities, and foreign equities (based on Thrift Savings Plan). A default allocation of 60% Government bond, and 10% each in private bond, large cap equities, small cap equities, and foreign equities will be created for each work. Workers will have an annual opportunity to readjust their personal account portfolio.

By 2040 over $20 trillion will have been invested in personal accounts, with over $12 trillion in government bonds (based on the default portfolio), which is more than enough to finance the transition from traditional trust fund benefits to personal accounts.

We agree with Tanner that large personal accounts can solve the solvency problem by replacing traditional benefits with self-funded accounts. We prefer a gradual phase in of the personal accounts, and in lieu of a tax reduction, prefer increasing the size of the personal accounts after the baby boomers have retired.

Pozen's progressive indexing strategy could be incorporated into our proposal, by creating a smaller minimum benefit for higher income individuals.

We disagree with proposals to increase the estate tax, and the assertions that personal accounts would actually worsen Social Security's solvency. We feel proposals for an automatic 401(k), such as enrollment, escalation, investment, and rollover, would be beneficial to apply to the Social Security system.

Similarly, we disagree with proposals to increase payroll taxes for those making over $90,000, increase income taxes, and increase the estate tax.

In order to address concerns about security, we have proposed a minimum benefit level based on current benefits as a safety net for all retirees, disabled, and survivors.

In addition, some have recognized that more women are now working. Under the current system, they could receive either their own benefits or survivor benefits if their spouse died. With personal accounts, these women could receive their own benefits and inherit their spouse's personal account.

Statement of Thor Anton Larsen, Sacramento, California

I am concerned at how the current and previous administration has administered our social security deposits. I have deposited about 6.2% of my salary for 20 years. My employer has also deposited 6.2% of this same salary. The total deposited is now a lot more than $100,000.

Recently, I saw our president, George Bush, picking up some files from a West Virginia government storage area, and stating the bonds he is holding are worthless pieces of paper.

To me, these are the bonds I have acquired over time. And I find it offensive that the U.S. government will now say these are worthless. These should have been increasing in value to a degree of say 0.5% below the Treasury lending rate since 1981. That may average to say 2.5%???

Anyway, since I have definite records of depositing about $50,000 to Social Security, and my equal employer has done the same, this should be worth well over $150,000 at this time.

Why is our President now saying they are worthless stocks/bonds?

Obviously, the capital has been spent. And we are not accrueing interest on our investment.

The repairs for this situation seem numerous. I notice one repair is to lower the benefits for the middle class. I eliminate the upper class, as they are not a contributor (contributions end at $90K salary this year).

This solution will put the fullest burden on our middle class. Is that the USA intent?

I also noticed that the chairman, Bill Thomas, had proposed that raising the limit of Social Security taxes, from the current $90K to $150K will totally solve this dilemma, and keep Social Security reimbursements at the desired levels.

This would keep the same levels, without raiseing taxes at all, nor reducing benefits!

How about it?? Let's just raise the Social Security limit to $150K or more. There will not be threat of lower benefits, and a minimal amount of citizens are affected.

In fact, the ones affected will only be affected in that they must continue to pay tax at a 6.2% rate after they have achieved $90K.

Amazingly, many people do not realize that the wealthy quit paying Social Security after a $90K wage!

Let's promote that!

Statement of Martha A. Marshall, National Association of Disability Examiners, Lansing, Michigan

The National Association of Disability Examiners (NADE) wishes to thank Chairman McCrey, Mr. Levin and members of the Subcommittee for providing this opportunity to highlight the importance of Social Security's safety net to vulnerable populations, and the need to consider the impact of any Social Security reform initiatives on the Social Security Disability Insurance (DI) program and the citizens it serves. Although we believe that members of this Subcommittee are aware of the need to address the impact of any changes to Social Security on the DI program, this issue has received very little attention in the media or in the public discussions. We appreciate the Subcommittee addressing this issue.

NADE is a professional association whose mission is to advance the art and science of disability evaluation. Our membership includes Social Security Central Office and Regional Office personnel, attorneys, claimant advocates, physicians and others interested in the Social Security and Supplemental Security Income (SSI) disability programs. However, the majority of our members are employed in the state Disability Determination Service (DDS) offices and are directly involved in processing claims for Social Security and Supplemental Security Income disability benefits. The diversity of our membership, combined with our "hands on" experience, provides us with a unique understanding of the anticipated, and unanticipated, impact which changes to Social Security's funding or benefit structure will have on the Social Security disability program.

While it is possible for an individual and his or her family to prepare for retirement, it is rarely possible to prepare for disability. It is logical to assume that for the majority of disabled workers Social Security benefits constitute a larger percentage of their family's income than they do for retirees. It is essential, then, that any changes to the Social Security program, or initiatives to achieve solvency, do not adversely affect the disability benefits paid to these beneficiaries and their families.

Since 1956, when the Social Security Act was amended to provide benefits to disabled workers and disabled adult children, the disability program has become increasingly complex. Eligibility for disability benefits is an administrative decision that integrates medical, legal, vocational and functional elements. Individuals responsible for adjudicating these claims must possess a unique combination of knowledge and skills. The Government Accountability Office (GAO) acknowledged this in their January 2004 report, *Strategic Workforce Planning Needed to Address Human Capital Challenges Facing the Disability Determination Services*: "The critical task of making disability decisions is complex, requiring strong analytical skills and considerable expertise, and it will become even more demanding with the implementation of the Commissioner's new long-term improvement strategy and the projected growth in workload."

While NADE recognizes the need for, and supports, SSA's commitment to move to an electronic disability claims process this tool will not replace the highly skilled and trained adjudicator who evaluates the claim and determines an individual's eligibility for disability benefits in accordance with Social Security's rules and regulations. The need for adequate resources of time and funds to provide for both the initial training of disability adjudicators and for their ongoing training is critical. The well trained and highly knowledgeable disability examiner is not only SSA's primary tool in delivering effective and efficient customer service, he/she is also the Agency's first line of defense against fraud and abuse. In fact, in previous testimony before this Subcommittee, SSA's Inspector General declared that, ". . . the well trained disability examiner is SSA's most effective tool in combating fraud and abuse, thereby strengthening the solvency of the trust funds." We will not take the time in this testimony to address the many recent examples of fraudulent claims that have received so much media exposure as we are sure that the Members of the Subcommittee have had their attention directed to these incidents. However, we

do want to caution the Subcommittee that for every fraudulent claim that receives media exposure there are hundreds of such claims that do not. It is our strong belief that it will remain of critical importance for SSA's ability to maintain public confidence in the disability program that the individuals who process the claims have the technical expertise and knowledge to do so effectively and efficiently, and also have the requisite training and skills to enable them to remain alert and cognizant to the potential for fraud.

NADE recognizes and supports the need to improve the disability decision making process. We are concerned, however, that the Commissioner's new "Approach" to disability case processing, as described in her September 25, 2003 testimony before this Subcommittee, with its increased reliance on medical specialists and attorneys and its elimination of the triage approach currently being used in 20 DDSs, could potentially increase both the administrative costs and the program costs of the disability program. If, as has been envisioned, the first level of appeal following a denial by the DDS is handled by an attorney, rather than by a trained disability examiner, and if medical specialists replace programmatically trained DDS medical consultants, the disability program's administrative costs will almost certainly increase and, we suspect, so will program costs as more claims are allowed on appeal by individuals who lack the requisite training and background to view such claims from the perspective of SSA's definition of disability. We also suspect that less involvement in the decision making process by well trained disability examiners will lead to higher incidences of fraud and abuse.

The disability program is already under intense pressure and experiencing significant strain as trained disability examiners retire and Baby Boomers reach their most disability prone years. This unfortunate combination of declining institutional knowledge, frequent turnover in staff at both SSA and in the DDSs, and the potential increase in the number of disability claims will leave little room for ongoing training, especially since adjudicators will be required to spend the precious little time they have for training to learn the changes necessary to process claims under SSA's new electronic process. Again, we caution the Members of the Subcommittee that any legislation which would result in an increase in the number of initial claims filed, or an increase in the number of appeals to the Administrative Law Judge (ALJ) level will seriously jeopardize SSA's ability to process these claims. It is essential that the time and funds necessary for ongoing training for all adjudicators be provided as a commitment to ensuring effective and efficient customer service.

Currently when a disability beneficiary reaches retirement age his or her benefits are converted to retirement benefits. This move from disability benefits to retirement benefits is currently—and should remain—seamless. Disability benefits should not be lower than the individual's projected retirement benefits, nor should they be higher. In view of the fact that retirees, unlike disability beneficiaries, have had time to accrue additional retirement resources it could be argued that it is reasonable for disability benefits to be higher than retirement benefits. However, maintaining higher benefits for disabled workers than for retired workers who have contributed to Social Security for a full working life would create an incentive for workers to claim disability before retiring. This has the potential to create an administrative nightmare of increased claims, thereby reducing the time and resources available to process the normal caseload.

Many of those individuals filing for disability benefits rather than retirement benefits would, by virtue of their age, education and past work experience, be found eligible for disability benefits. These decisions, which are made at Steps 4 and 5 of the Social Security disability program's sequential evaluation process, are the most labor intensive claims to adjudicate. Determining whether or not a claimant is "disabled" at these steps in the sequential evaluation process requires the adjudicator to first assess the individual's current ability to perform work related activities and then determine whether, considering his or her age, education and past work experience, he or she can return either to past work (Step 4) or other work available in the national economy (Step 5).

The Social Security Advisory Board, in their October 2003 report, *The Social Security Definition of Disability*, described the difficulties inherent in making these medical/vocational decisions: "In the early years of the program, over 90 percent of cases were decided on the basis that the claimant's medical condition was specifically included in the listings or was of equal medical severity . . . but the degree of subjectivity clearly is more substantial where the decision moves from entirely medical standards to an assessment of the individual's vocational capacity." Thus, the applications of those individuals filing for the higher disability benefits, rather than retirement benefits, are both more labor intensive and more subjective.

In previous testimony before this Subcommittee (July 24, 2003), we urged that adequate funding be provided for SSA's Continuing Disability Review, or CDR, process. We noted then that the CDR process, for every $1 expended, produced $9 in savings to the disability program. We continue to urge that adequate resources be allocated to keep the CDR process current. We further believe that it may be time for Congress to revisit the issue of the Medical Improvement Review Standard (MIRS), a congressionally mandated requirement, adopted twenty years ago in the wake of a significant increase in the number of disability reviews that resulted in recommendations for termination of benefits. MIRS requires that adjudicators first establish that there has been improvement in a claimant's medical condition before recommending that an individual's benefits be ceased. We will not argue this point at this time but we do wish to point out that claimants who are awarded disability benefits may have little financial incentive to seek medical improvement in their condition. In addition, claims that are allowed for impairments that, in hindsight, may not be viewed as truly disabling under SSA's definition of disability, cannot be reviewed and benefits terminated because it is nearly impossible to show medical improvement in such cases. NADE believes that this is an important issue, deserving of fresh dialogue, and we encourage this Subcommittee to examine this issue in the near future and to conduct hearings on this matter to ascertain if the MIRS remains relevant in the 21st century.

In our testimony before this Subcommittee and the Subcommittee on Human Resources on May 2, 2002, we highlighted many issues facing SSA's ability to provide effective public service while maintaining solvency. Those issues are still relevant today. We will not discuss them in length at this time; however, we believe they remain as critical today as they did three years ago:

- Solvency of Social Security trust funds
- The need to develop a more efficient disability claims process that is affordable
- SSA's inefficient and ineffective quality assurance process for its disability programs
- The need to eliminate the five (5) month waiting period for Social Security disability benefits
- The impact of technology on claimant service
- The need to prepare for the impending wave of retirements that face both SSA and the DDSs
- The need for bold leadership to provide direction for a program that has been managed, in large part, by short sighted responses to court decisions and other external pressures
- The need to truly implement the "One SSA" concept throughout the Agency
- The need for adequate resources to deal with the Agency's caseloads
- The need to meet other challenges, including the impact fraud has on the disability program, the need to resolve critical systems issues, and the challenge of ensuring that only the truly disabled are awarded benefit payments and that only those who remain disabled continue to receive these payments

In that same testimony, we highlighted other concerns we felt impacted on the Agency's ability to provide effective public service:

- The challenge to examine the current relevance of SSA's definition of disability.
- The challenge to revise the medical listings with attention as to how new and/or revised listings will impact on administrative and program costs.
- The challenge to find a replacement for the Dictionary of Occupational Titles.
- The challenge of dealing with increased instances of fraud.
- The challenge of providing effective service to non-English speaking claimants.
- The challenge surrounding the medical improvement review standard (MIRS) and its impact on program costs.

It is unfortunate that little progress has been made in many of these areas since we presented this testimony three years ago. The luxury of time is not something that can be taken for granted and we believe positive action is needed immediately to address these issues.

In conclusion, we again commend this Subcommittee for its positive action to hold this hearing to examine ways to protect and strengthen Social Security. We remind the Members of the Subcommittee, during your deliberations on this matter, to keep in mind the mission of Social Security, **"To promote the economic security of the nation's people through compassionate and vigilant leadership in shaping and managing America's social security programs."**

Thank you.

Statement of Alfred Lee Nelson, Olathe, Kansas

ELIMINATE THE GPO/WEP in this 109th congress. Raise the retirement age, because with today's medical technology people are

Eliminate the GPO/WEP in the 109th Congress. Raise the retirement age because people are naturally living longer. Make sure that everyone is contributing their FAIR SHARE into the program if they plan on reaping the benefits. With today's salaries, that should not be a problem. When I was working and paying into the program, the deduction from my "basic pay" in the ARMY, which I thought was overwhelming and really could not afford, the government was actually making me "save" for my future. Now the government which was making me save is now "STEALING" my EARNED BENEFITS through the unfair legislature of the GOVERNMENT PENSION OFFSET (1977) and the WINDFALL ELIMINATION PROVISION (1983) I understand that the Social Security Shortfall, in a report from the SS trustees released last March, forecasts that the trust fund will run out of money in 2041 and that SS would be able to pay only 74% of benefits. For an average retiree, that would mean losing nearly $500.00 per month. Well duh,— if you keep paying out of ANY fund and applying the necessary COLA's, and the INPUT is NOT INCREASED, naturally the output is going to deplete itself in a relatively short period. It really doesn't take a rocket scientist to figure that out. While I really feel sorry for the future retirees, my kids included, I am a helluva lot more concerned about the current retirees. Because of the WEP, I am personally losing in excess of $300.00 EACH MONTH (that's over $3,700.00 per year). I am also a military retiree and my "Promised FREE MEDICAL BENEFITS; for LIFE cost me $78.20 EACH MONTH for Medicare Part B so that I can be eligible for TRICARE FOR LIFE. If the 109th congress does not repeal these unjust legislatures, I will be losing in excess of $400.00 EACH MONTH of my EARNED BENEFITS for another year. ELIMINATE THE G! PO/WEP (HR 147—S 619) in this 109th congress—AND—KEEP OUR PROMISE to AMERICA'S MILITARY RETIREES ACT (HR 602—S 407). If the 109th congress can solve this immediate problem for thousands of military, civil service and public retirees, I may have a little more respect for my government. Right now, I am really disgusted!!!!!!!!!! I laid my life on line for over 20 years and then delivered mail to the American public for another 20+ years and this is the thanks I receive from government. Something is WRONG with that picture. Thank for listening to "one of many" American Citizens that feel the same as I feel.

Statement of John Clements, Political Research, Inc., Dallas, Texas

For several months, I have written about the current crisis facing Social Security. I would like to present two articles for submission for the record for the Committee on Ways and Means. First in a Series of Subcommittee Hearings on Protecting and Strengthening Social Security. The articles appeared in the February 2005 and May 2005 *World of Politics.* Thank you.

(February 2005)

Among Other Things . . .

The Republic of the United States of America is a **government** of the people, by the people and for the people. This relationship means that we are a **country** of the people, by the people and **for the people**. Charity begins at home, and now is the time for our idea—person equals executive—and all shall be protected in retirement with and by the richest country in the world.

The employer-employee relationship is the backbone of business in the United States. Without employers, no company could exist; without employees, no company could earn profits for its officers and stockholders. The smartest corporate executive in the world would find himself or herself at a loss if confronted with a workforce of zero. Conversely, without viable companies, people would be unable to support themselves and their families. In reality, companies and employees are dependent on each other. They need each other to exist. Has the time come for "Corporate America" to face this almost symbiotic relationship between business and labor?

According to the president, the United States faces a crisis in how it deals with employees once they retire. Many Americans are dependent on Social Security. Corporations, however, have no need to fear retirement since the labor pool generally replenishes itself. Corporate officers also lack such a fear knowing that they have their bonuses and stock options to keep them comfortable in their "golden years."

Although some companies have tried to help their employees in retirement, they have discovered that the task has become more difficult.

The market value of goods and services produced by labor and property supplied by U.S. residents, regardless of where they reside (the classic definition of gross national product), in 2003 was $11.004 trillion. The current needs of Social Security, which, as everyone knows, is a pay-as-you-go program, are large. In 2003, the federal government paid total Social Security benefits, including survivors and disability insurance, of $471 billion. As a percentage of the gross national product in 2003, total Social Security benefits paid were only 4.28 percent. If Corporate America were to shoulder this burden, say a five-percent annual tax on gross income, the retirement problem facing the United States would be solved, and the Social Security payroll tax would become a thing of the past.

(May 2005)

Among Other Things . . .

People must accept the inevitable about Social Security. The butcher, the baker and the candlestick maker create the gross national product (GNP), not just the executive, who thinks he pulls the strings of political puppets in Washington, D.C. Together, all four people form a team, a company, that produces a product or service. The executive cannot be without the worker; the worker cannot be without the executive. It is not an "US" versus "THEM" situation; it is a "WE" situation. Each needs the other. With dire predictions abounding for Social Security, it is time that everyone confronts the reality of the situation.

In 2004, the gross national product was $11.735 trillion. This figure, in the classic definition, represents the market value of goods and services produced by labor and property supplied by U.S. residents, regardless of where they reside. In 2004, the federal government paid total Social Security benefits, including survivors and disability insurance, of $493 billion. Thus, as a percentage of GNP in 2004, total Social Security benefits paid were 4.2 percent. (For 2003, it was 4.28 percent.) If Corporate America were willing to pay an annual tax on gross income, the retirement problem facing the United States would be solved.

Under this plan, businesses could still divide profits as they saw fit; however, the retirement money would be deducted before the awarding of "golden parachutes" for executives. Rather than as government pillaging profits, companies should consider such action as a necessary corollary to doing business. Companies do not operate in a vacuum. They pay taxes for roads to haul their products to market, schools to educate their employees, police to protect their workers and property, sanitation systems to protect the health of workers and their families, promotional consideration for their products overseas and at home, security for their employees on trips, and myriad federal, state and local programs that benefit them. Retirement security for their employees should be viewed no differently, for the employee is the key machine that makes the tangible and intangible product or service.

It is time that the People show Corporate American who really pulls the strings of politicians in Washington and demand that they adopt a "solution" that is truly a solution!

Statement of Linda Fullerton, Social Security Disability Coalition, Rochester, New York

My name is Linda Fullerton and I am President and co-founder of the Social Security Disability Coalition, a national, all volunteer organization that provides support and information to disabled people to help them collect Social Security Disability Insurance benefits. As you begin this hearing on protecting and strengthening Social Security, I ask that you please include in this discussion the issues facing disabled Americans and the promise of Social Security Disability benefits to them. When debating Social Security changes, Congress and the American people need to understand that Social Security is an insurance program not a pension plan strictly for retirees. Social Security is the widely used term for Title II of the Social Security Act which in technical terms is called Federal Old-Age, Survivors and Disability (SSDI) Insurance. I must remind you that the key word in that title is INSURANCE. How is privatization going to effect those citizens who are under 55 or retirement age? SSDI, and survivors benefits are accessible at any age and part of the same plan. Your Social Security statement, which is sent each year to every worker age 25 or older, gives an estimate of retirement, disability and survivors benefits that could be paid, as well as other important information. All 3 programs

use the same benefit formula so changes in one affect them all. As of December 2004, 69% of all Social Security beneficiaries were retired workers, 17% were disabled workers and 14% were survivors of deceased workers. You often hear as the reason for the SS "crisis", is that baby boomers due to retire will drain the trust fund, and there aren't enough workers to cover them since people are having fewer children. When addressing this issue you must also raise concerns about the tax cuts to wealthy Americans, the unemployment rate, lack of decent wage jobs and the millions of jobs shipped overseas as additional major reasons the SS trust fund is lacking.

I have been permanently disabled since 2001 and unable to work due to several incurable health conditions, and currently receiving Social Security Disability benefits after fighting for a year and a half to receive them. During the wait time to process my claim for benefits, my debts accumulated, I used up all my life savings, and was on the verge of bankruptcy. After being awarded SSDI benefits and retroactive pay, I had to use the retroactive money to pay off debts incurred while waiting to get my benefits. Furthermore, before being awarded my Medicare benefits in June 2004, because of the two year mandatory waiting period for Medicare for the disabled, I had to spend over half of my SSD check each month on health insurance premiums and prescriptions, in addition to co-pay fees. To help others avoid similar a situation, I co-founded the Social Security Disability Coalition (SSDC), a national volunteer organization based out of Rochester, NY of which I am also the president. This group offers support and information to disabled Americans, that will help them file for their SSDI benefits and it is focused on reform of the Social Security Disability program which is in serious need of immediate attention.

The Social Security Disability Coalition was formed in January of 2003 and currently has over 1400 members from all over the USA:

In regards to the possibility of benefit cuts or changes to the COLA, which have also been discussed, I ask that you consider this—I can say for a fact that with the possible increases now in the Medicare premium (just read talk of another one planned for next year), prescription drugs, additional health plans to Medicare raising premiums each year, and increases in everything else—food, gas, clothes, shelter etc that even at the current COLA rate I am getting less every year and my expenses continue to increase at a rate that the COLA never compensates for. Supposedly Social Security was never set up to be a sole source of income, but for many who are disabled, including myself, who can never work again, it truly is our only source of income for the rest of our lives. Since the amount we get is the same as those who are retired we will always be kept in poverty status as we have no other way to increase our funds/savings since we can no longer work. It is a continual source of stress which just makes our health conditions worse. I hate the fact that I am doomed to live the rest of my life being sick and in poverty. It is no wonder the depression and suicide rate is so high among the disabled population of this country!

Disabled Americans are often viewed as "disposable" people, and nowhere is that more obvious than in this debate on Social Security privatization, and in the way majority of Congress up to this point has kept us out of it. Yet, we are the ones who will be most adversely affected by any changes that might take place. I hope you will take the steps to change that and address the fear and frustration that is resulting from the prospect of having our benefits taken away or cut. Since the SS Disability program is so closely tied to the retirement aspect of the Social Security program, you cannot make changes to one without directly affecting the other. Rather than create a crisis that doesn't exist at this time, Congress should focus on the REAL Social Security reform crisis that all Americans need to be made aware of, and affects ALL of them UNDER retirement age. We also have many other programs in crisis that provide for the health and well being of the nation, that need immediate attention in addition to Social Security Disability, such as Medicare and Medicaid. It is also crucial that we come up with affordable health insurance for ALL Americans. The American people have told their leaders many times over that this is what they want, and Congress should not be wasting precious time and tax dollars on a manufactured "crisis". The solvency of Social Security can be protected with bi-partisan measures such as it was in the 80's under President Reagan and then Congress can focus on the real problems at hand.

Disabled Americans who are trying to access their benefits NOW can lose everything they have ever owned and worse yet even die in the process. The Social Security Disability Program is severely understaffed, violating Federal regulations, their own SS policies and destroying/abusing disabled Americans on a daily basis. The money saved by fixing these problems would be more than enough to keep SS solvent for years to come, and some disabled Americans could possibly return to the workforce contributing back to the system, which is almost impossible now, since

often irreparable damage is caused during the application process. It would also alleviate some of the Medicaid crisis which every state faces, since often Social Security Disability applicants due to the devastation on their lives while trying to get SSD benefits, are forced into the Medicaid and other Social Services programs in their states as well. As a result of the problems with the current SSD program they are forced to live in poverty and rely on two programs instead of just one for the rest of their lives.

The disabled members of the Social Security Disability Coalition, along with the rest of the disabled citizens of this country are scared that they will not be able to get the SSD benefits they need, and those of us already getting SSDI benefits fear we will face benefit cuts or even total benefit loss. We are very stressed and concerned with the changes that could take place. And it is commonly known, that stress of any kind is very detrimental to those with disabilities. Our group and experiences, are a very accurate reflection and microcosm of what is happening to millions of Social Security Disability applicants all over this nation.

Social Security: The Hidden Dangers of Privatization

Since the talk of privatization has been focused on the retirement aspect of Social Security, I ask that you address the hidden dangers of Social Security privatization that the American people are not being told about. Disease, tragedy and death do not discriminate on the basis of age, sex, race or educational background. They can strike at anytime throughout your life without warning, and you may need to file claims for other essential Social Security insurance benefits. Currently you are asking the American people to not only gamble with their money, but you are asking the disabled to gamble with their lives!

Social Security Disability Benefits—to qualify individuals must have a severe physical or mental impairment that has lasted or is expected to last at least 12 months or result in death that prevents them from working. Most people qualify for Medicare after receiving disability benefits for 2 years. When a person stops working because of their disability, they may qualify for disability insurance if they are below normal retirement age. Then, if they are still disabled when they reach normal retirement age, their benefits automatically convert to retirement insurance, but they get the same amount. In 2001, the Government Accountability Office (GAO) studied several plans to change Social Security. It concluded that, compared to the current program, people with disabilities would get much lower benefits under plans that would use payroll taxes to create individual private accounts.

A Downward Spiral Into Poverty For Millions of Americans

Since talk of Social Security privatization started, Congress has had to deal with a manufactured "crisis" and has not been able focus on actual crisis areas, such as the Social Security Disability program (designated by GAO several times to be a high risk area), Medicare and Medicaid. The following chilling scenario already happens to millions of Americans of all ages everyday, due to the crisis with the other programs mentioned above. If privatization of Social Security is approved, the chances of this happening on a even wider scale will increase dramatically, and the effects will be even more devastating than they are today. Keep in mind when reading this example, that under the proposed Social Security privatization plan, people will be allowed to put up to $1000 per year of their payroll taxes into a private investment account that cannot be touched under any circumstances, until they reach retirement age. Also keep in mind that the average American has very little money, if any at all in savings accounts, in case of emergency. Most would not have enough savings to survive on for more than two months if they could no longer work. Those that have investment accounts rather than savings accounts, which often pay higher interest rates, are at the mercy of the very unreliable stock market and millions of dollars as we all know have already been lost there.

EXAMPLE: It is 2006 and the Social Security Privatization Act has passed. Americans are now allowed to divert a maximum of $1000 a year from their payroll taxes into a relatively safe government managed investment account. They are not under any circumstances (according to current proposals) allowed to touch this money until retirement age. Our subject John graduates from college at 21 and lands an entry level job right out of school at a local computer firm in his area. His starting salary is $30,000 per year. The company offers a traditional pension plan and after 5 years he is vested in the plan. After the first year of employment, if he should he lose his job, he can transfer the money into a private account of his own choosing outside the company plan or keep it where it is until he reaches retirement age. When the SS Privatization plan took effect, the company dropped the 401k plan that they offered, in addition to the traditional pension plan, in order to cut costs. They do offer health insurance with a choice of 3 different HMO plans,

and again to cut costs, the employee must contribute a portion of their own pay in order to be covered under one of these plans. Also to keep costs down the company does not offer any private disability insurance plans.

Jump ahead to the year 2011 and John at 26, is now earning $50,000 per year. He has been taking full advantage of the new SS Privatization plan and for the last five years has diverted $1000 a year of his payroll taxes to his private account. He also has about $50,000 in a traditional savings account and decides he wants to purchase a new house. He decides to put down $30,000 out of his savings on the new house, and the mortgage payments are $650 per month for the next 30 years. In 2014 John decides he needs a fuel efficient hybrid vehicle and decides to buy a new $25,000 car taking out a 4 year loan. After a $3000 down payment out of his savings, and trading in his old vehicle, his payments are around $350 per month, since he was able to take advantage of a no interest loan incentive offered by the manufacturer.

It is now January of the year 2016, and John at 31 is still single, paying the mortgage on his house and the payments on car he bought back in 2014. His salary is now at $60,000 per year and he has continued for the last five years to divert the full $1000 per year of his payroll taxes to his private account. His savings account due to the house and car payments has remained fairly stagnant at around $17,000. By most standards he is living the "American Dream"—nice house and car, good job, health insurance, modest savings and a retirement account. Then suddenly in the month of June, and without any warning, John experiences a life altering event (accident/illness) and his doctors determine that he is permanently disabled, and will never be able to work at any job, ever again.

John, as a result of this unfortunate circumstance looses his job of 10 years, and remember his company did not offer him private disability insurance. He is then told by his doctors that he should apply for Social Security disability/SSDI. He begins the benefit application process by himself and the waiting game begins. He now has no income and must live off that $17, 000 savings account that he has. Four months go by and finally John hears back from Social Security that his disability claim has been denied (68% of all cases are currently denied at the initial phase of the process). He now has 60 days in which to file an appeal for a reconsideration, or in some states a hearing, and at this point decides to hire an attorney. Once the appeal is filed John is forced again to wait while his claim sits in an SS office for months with not enough staff to look at it. In the meantime John's savings are quickly being used up on paying his mortgage, car payments and all the other bills he has. His company no longer pays for his health insurance so he must take advantage of COBRA for the next 18 months. His health insurance premium under COBRA now costs him $250 per month instead of the $40 per month he was paying through his job. That does not include the co-pays. John's expenses for just his mortgage, car payment and health insurance alone are at $1250 per month now. At this point, John's savings account is all gone and he has to roll over the pension money he got from his employer into a money market IRA at his credit union—because he is disabled they allow him to take it early without penalties. There is about $25,000 there for him to live on.

Another 6 months goes by and due to severe backlogs within the SS system there is still no word on his claim. At this point the $25,000 is gone and the bill collectors start harassing him. He has no money left to pay the mortgage, car payments or health insurance, let alone any other bills. He has no choice but to start maxing out all his credit cards. Another 4 months goes by and still no word on his SS claim. With all his credit cards used up, no financial resources at all for backup, he goes down to Social Services (welfare/food stamps/Medicaid) and asks for help. He finds out that much to his dismay, he does not qualify because of his assets (the private account that he diverted his payroll taxes into is considered an asset even though he cannot touch it until he retires). At this point John is so far in debt that the bank threatens to foreclose on his home. They have already repossessed his car, and he no longer has health insurance. He is in a panic by this point and his lawyer contacts SS to let them know that his client is in dire need, and requests that the process for his SS claim be given more attention. Again due to backlog and lack of SS employees to process claims quickly, this process takes another two months and by that time John has lost his home, his credit is ruined and he must now file for bankruptcy. He has had to move back home with his parents. Finally John gets his Social Security Disability claim approved and since he hired an attorney to get his Social Security disability benefits, John must now pay him 25% of all the retro pay he got up to $5300 from waiting for his claim to be processed. John still cannot afford health insurance and under current laws must wait 24 months from disability date of eligibility before he can get Medicare benefits.

Under traditional Social Security/SSDI, John would receive disability/retirement pay of $30,432 per year. Because he diverted that $1000 per year into a private account and paid less into the Social Security program he will now only receive a YEARLY disability benefit of $5464 to live on for the next 36 years (provided they do not raise the retirement age again). (Note: the money that has been diverted into his private account each year, according to current proposals cannot be touched under ANY circumstances until he reaches retirement age). When John finally does reach retirement age, and his SS disability benefits automatically turn into retirement benefits, John will get $5,464 from SS, $14,133 from his private account for a total of $19, 567 per year to live on. That is a total yearly retirement benefit cut under SS privatization of $10,835 or 36%!

To see how you will do try this:

Social Security Benefits Calculator—Based on proposed Social Security privatization plan

http://www.schumer.senate.gov/calc/index.html

All numbers are annual benefits adjusted for inflation. Calculations are based on Congressional Budget Office (CBO) economic assumptions. Individual accounts will do nothing to restore long-term solvency there is talk that further benefit cuts are necessary. Since there is no specific proposal, these estimates assume that benefits are "price indexed," a proposal made in Plan 2 of the Social Security Commission. Check here for more information on how these figures were calculated: http://www.schumer.senate.gov/calc/images/ss-calculator_assumptions.pdf

Needless to say John's American dream has now become the American nightmare under Social Security privatization. Many more people may have to file for bankruptcy and now Congress is passing legislation to make that process even more difficult for needy Americans. Currently it can take anywhere from 4 months to 4 years to get approved for Social Security Disability benefits. Since January 2004 there have been over 2 million NEW applications for Social Security Disability benefits and as of October of that same year there were still over 1,200,000 people still waiting for decisions on their claims. Among Disability Insurance beneficiaries (disabled workers, their spouses and children), 88% were under age 62. Unless something is done to fix this crisis the numbers will continue to grow. Congress needs to take the time to fix the problems within that part of Social Security instead of diverting its attention to a privatization plan that is going to cut benefits and create a legacy of poverty. If these problems aren't solved NOW, not only will Americans get less benefits in the future but it will take even longer to access them. We need legislation quickly to provide the funds necessary to hire and train more SS workers, and educate claimants and physicians on the Social Security Disability process and what is required to make the benefit application process quicker and more simplified. We also need Congress to pass legislation removing the 2 year wait for Medicare for Social Security disability recipients. Once a Social Security Disability claim is approved, Medicare should become available immediately. When the flaws in the Social Security Disability program are fixed, this will also reduce the number of people forced into state social service programs, Medicaid, and having to file for bankruptcy since many are forced into those programs now, as a result of these problems.

ISSUES CONCERNING THE SOCIAL SECURITY DISABILITY PROGRAM

The current Social Security Disability program and the process that an applicant endures when filing for disability benefits, causes irreparable harm and has many serious side effects including unbearable stress, depression, and in some cases the depression is so severe that suicide seems to be the only option to get rid of the pain, of dealing with a system riddled with abuses against the disabled, already fragile citizens of this country. According to past GAO reports, the SSD program is at HIGH RISK but Congress for the most part continues to ignore this problem and has been forced to spend time on other issues that are not as critical.

The time it takes to process a Social Security Disability claim from the original filing date is now, in many cases, at least 1–3 years or longer. If claimants provide sufficient medical documents when they originally file for benefits they shouldn't be denied at the initial stage, have to hire lawyers, wait years for hearings, go before administrative law judges and be treated like criminals on trial. The current SSD process seems to be structured in a way to be as difficult as possible in order to suck the life out of applicants in hope that they give up or die in the process, so that Social Security doesn't have to pay them their benefits. To a population that is already compromised, this is unacceptable and this issue must be made a priority

for every member of Congress since it is a life and death situation for millions. Many SSD applicants are losing EVERYTHING in the process of applying for benefits, their homes, all their financial resources, their healthcare and worse yet their lives. The stress and worry that applicants are forced to endure while applying for SSD benefits, also causes further irreparable damage to their already compromised health and is totally unacceptable. Those who do lose everything, are now in addition to their illnesses, forced into a level of poverty, which they will have to live with the rest of their lives since they can no longer earn a living. Due to the devastation on their lives and health, the Ticket to Work program, and any chance of possibly getting well enough to return to the workforce, even on a part time basis, becomes out of the question.

The current claims process is also set up to line the pockets of the legal system, since you are encouraged from the minute you apply to get a lawyer. Why should you need to pay a lawyer to get benefits that you have paid into all your working life? The SSD program is structured so that it is in a lawyer's best interest for your case to drag on since they automatically get paid a percentage of a claimant's retro pay—the longer it takes the more they get even if they do almost nothing. From the horror stories I hear from claimants many attorneys are definitely taking advantage of that situation.

SSA customer service is extremely poor and in major need of improvement across the board. If any corporation in this country did business like the SSA, the majority of employees would be fired on the spot, and the company would be shut down within a year. Here is just a small sampling of the constant complaints we receive about the Social Security Disability system and its employees:

Extraordinary wait times between the different phases ofthe disability claims process

Severe understaffing of SSD workers at all levels of the program

Employees are poorly trained, greatly lacking in knowledge of and in some cases purposely violating Social Security and Federal Regulations (including Freedom of Information Act and SSD Pre-Hearing review process).

Employees being rude/insensitive to claimants

Employees outright refusing to provide information to claimants or do not have the knowledge to do so

Employees not returning calls

Claimants getting conflicting/erroneous information depending on whom they happen to talk to at Social Security—causing confusion for claimants and in some cases major problems including improper payments

Complaints of lack of attention or totally ignoring—medical records provided and claimants concerns by Field Officers, IME doctors and ALJ's.

Fraud on the part of DDS/OHA offices, ALJ's, IME's—purposely manipulating/ignoring information provided to deny claims.

Complaints of lost files and files being purposely thrown in the trash

Complaints of having other claimants information improperly filed/mixed in where it doesn't belong causing breach of security

Poor/little coordination of information between the different departments and phases of the disability process

These complaints refer to all phases of the SSD process including local office, Disability Determinations, Office of Hearings and Appeals and the Social Security main office in MD (800 number).

SOCIAL SECURITY DISABILITY COALITION REFORMS

We want disability benefits determinations to be based solely on the physical or mental disability of the applicant. Neither age, education or any other factors should ever be considered when evaluating whether or not a person is disabled. If a person cannot work due to their medical conditions—they CAN'T work no matter what their age, or how many degrees they have. This is blatant discrimination, and yet this is a standard practice when deciding Social Security Disability determinations and should be considered a violation of our Constitution. This practice should be addressed and eliminated immediately.

All SSD case decisions must be determined within three months of original filing date. When it is impossible to do so a maximum of six months will be allowed for

appeals, hearings etc—NO EXCEPTIONS. Failure to do so on the part of SSD will constitute a fine of $500 per week for every week over the six month period—payable to claimant in addition to their awarded benefit payments and due immediately along with their retro pay upon approval of their claim. SSD will also be held financially responsible for people who lose property, automobiles, IRA's, pension funds, who incur a compromised credit rating or lose their health insurance as a result of any delay in processing of their claim, which may occur during or after (if there is failure to fully process claim within six months) the initial six month allotted processing period.

Waiting period for initial payment of benefits should be reduced to two weeks after first date of filing instead of the current five month waiting period.

Prime rate bank interest should be paid on all retro payments from first date of filing due to claimants as they are losing it while waiting for their benefits to be approved.

Immediate eligibility for Medicare/Medicaid upon disability approval with NO waiting period instead of the current 2 years. The current Medicare program discriminates against disabled Americans. Applicants filing for Social Security Disability benefits face a very daunting system and the claims process can take several months to years before approval of benefits. In addition they may have to file for bankruptcy, become homelessness and even death while trying to get their benefits. Once they finally get through that nightmare, those that need healthcare the most must now wait even longer to get Medicare benefits being forced to wait TWO years after their disability determination date to get coverage. They are sick NOW and need healthcare NOW! They often have to go without health insurance or pay as much as half the amount of their meager benefit checks for basic health coverage, and that does not even include the cost of doctor visit co-pays or prescription drugs. This is an outrage and crime against the disabled citizens of this nation.

Too much weight at the initial time of filing, is put on the independent medical examiner's and SS caseworker's opinion of a claim. The independent medical examiner only sees you for a few minutes and has no idea how a patient's medical problems affect their lives after only a brief visit with them. The caseworker at the DDS office never sees a claimant. The decisions should be based with much more weight on the claimant's own treating physicians opinions and medical records. Independent medical exams requested by SSA must only be required to be performed by doctors who are located within a 15 mile radius of a claimants residence. If that is not possible—Social Security must provide for transportation or travel expenses incurred for this travel by the claimant. Also in the cases where SSD requires a medical exam, they should only be performed by board certified independent doctors who are specialists in the disabling condition that a claimant has (example—Rheumatologists for autoimmune disorders, Psychologists and Psychiatrists for mental disorders). Currently this is often not the case.

All Americans should be entitled to easy access (unless it could be proven that it is detrimental to their health) and be given FREE copies of their medical records including doctor's notes at all times. This is crucial information for all citizens to have to ensure that they are receiving proper healthcare and a major factor when a person applies for Social Security Disability.

ALL doctors should be required by law, before they receive their medical license, and made a part of their continuing education program to keep their license, to attend seminars provided free of charge by the SSA, in proper procedures for writing medical reports and filling out forms for Social Security Disability and SSD claimants.

More Federal funding is necessary to create a universal network between Social Security, SSD/SSI and all outlets that handle these cases so that claimant's info is easily available to caseworkers handling claims no matter what level/stage they are at in the system. All SSA forms and reports should be made available online for claimants, medical professionals, SSD caseworkers and attorneys, and be uniform throughout the system. One universal form should be used by claimants, doctors, attorneys and SSD caseworkers, which will save time, create ease in tracking status, updating info and reduce duplication of paperwork. Forms should be revised to be more comprehensive for evaluating a claimant's disability and better coordinated with the SS Doctor's Bluebook Listing of Impairments.

Institute a lost records fine—if Social Security loses a claimants records/files an immediate $1000 fine must be paid to claimant.

Review of records by claimant should be available at any time during all stages of the SSD determination process. Before a denial is issued at any stage, the applicant should be contacted as to ALL the sources being used to make the judgment. It must be accompanied by a detailed report as to why a denial might be imminent, who made the determination and a phone number or address where they could be

contacted. In case info is missing or they were given inaccurate information the applicant can provide the corrected or missing information before a determination is made. This would eliminate many cases from having to advance to the hearing and appeals phase.

The SSA "Bluebook" listing of diseases that qualify a person for disability should be updated more frequently to include newly discovered crippling diseases such as the many autoimmune disorders that are ravaging our citizens. SSD's current 3 year earnings window calculation method fails to recognize slowly progressive conditions which force people to gradually work/earn less for periods longer than 3 years, thus those with such conditions never receive their 'healthy' earnings peak rate.

A majority of SSD claimants are forced to file for welfare, food stamps and Medicaid, another horrendous process, after they have lost everything due to the inadequacies in the Social Security Disability offices and huge claims processing backlog. If a healthy person files for Social Service programs and then gets a job, they do not have to reimburse the state once they find a job, for the funds they were given while looking for work—why are disabled people being discriminated against? Claimants who file for Social Service programs while waiting to get SSD benefits, in many states have to pay back the state out of their meager SSD/SSI benefits once approved, which in most cases keeps them below the poverty level and forces them to continue to use state funded services. They are almost never able to better themselves and now have to rely on two funded programs instead of just one. This practice should be eliminated. In all states there should be immediate approval for social services (food stamps, cash assistance, medical assistance, etc) benefits for SSD claimants that does not have to be paid back out of their SSD benefits once approved.

The claims process should be set up so there is no need whatsoever for claimant paid legal representation when filing for benefits and very little need for cases to advance to the hearing and appeal stage since that is where the major backlog and wait time exists. The need of lawyers/reps to navigate the system and file claims, and the high SSD cap on a lawyer's retro commission is also a disincentive to expeditious claim processing, since purposely delaying the claims process will cause the cap to max out—more money to the lawyer/rep for dragging their feet adding another cost burden to claimants. Instead, SS should provide claimants with a listing in every state, of FREE Social Security Disability advocates/reps when a claim is originally filed in case their services may be needed.

Audio and/or videotaping of Social Security Disability ALJ hearings and during IME exams allowed at all times to avoid improper conduct by judges and doctors. A copy of court transcript should automatically be provided to claimant or their representative within one month of hearing date FREE of charge.

Strict code of conduct for Administrative Law Judges in determining cases and in the courtroom. Fines to be imposed for inappropriate conduct towards claimants.

We have heard that there is a proposal to give SSD recipients a limited amount of time to collect their benefits. We are very concerned with the changes that could take place. Since every patient is different and their disabilities are as well, this type of "cookie cutter" approach is out of the question. We especially feel that people with psychological injuries or illness would be a target for this type of action. Some medical plans pay 80% for treatment of biological mental heath conditions, but currently Medicare only pays 50% for an appointment with a psychiatrist. This often prohibits patients from getting proper treatment and comply with rules for continual care on disability. The current disability review process in itself is very detrimental to a patient's health. Many people suffer from chronic conditions that have NO cures and over time these diseases grow progressively worse with no hope of recovery or returning to the workforce. The threat of possible benefits cut off, and stress of a review by Social Security again is very detrimental to a recipients health. This factor needs to be taken into consideration when reforming the CDR process.

NOTE: The problems with the Federal Social Security Disability program cause an extra burden on state Social Service programs, which could be greatly reduced once this Federal program is fixed, and the states along with the claimants would reap the benefits in the long run. State politicians need to put pressure on congress to put more funds into the SS system to hire more qualified claim examiners and better educate employees, doctors and the claimants themselves to speed up the process.

Social Security Disability Application Process Timeline 2002—conditions are much worse now.

http://www.ssa.gov/disability/disability_process_frameset.html

Initial Stage—125 days—in now it can be up to 180 days

Reconsideration Stage—291 days from initial application filing date to find out whether claimant is approved or denied—NOTE: not applicable in 10 test states in the U.S. where this phase has been removed.

Hearing and Appeals Stage—722 days—There is no time limit on when judge has to have their written decision completed and sent out, and it currently often takes several weeks to several months for a claimant to receive this decision.

Appeal to District Court Stage—1153 days or more

District Court Appeal Stage—1760 days or more

NOTE: SSA conducts reviews of some cases for consistency and accuracy. Once claim is approved it may be randomly selected by computer for Federal Quality review. 7 out of every 10 cases are selected and this process adds another minimum 30–60 days to process. Once finally cleared at ALL stages for approval, cases are sent to a Processing Center for final payment which could take at least an additional 30 days for payments to be processed. These times periods are in addition to the days mentioned above.

Total—January through October for year 2004

Number of Social Security Disability Applications—1,837,266

Number of Social Security Disability Awards—667,931

Total—January through December for year 2003

Number of Social Security Disability Applications—1,895,521

Number of Social Security Disability Awards—777,905

Awards as a percentage of applications is a crude allowance rate. This rate expresses the number of awards in a given time period as a percentage of the number of applications in the same time period. Some of the awards in any time period, however, resulted from applications in previous time periods.

Appeals Council Request for Review Statistics

November 2004—Average processing time 251 days

November 30, 2004—47,906 requests for review pending

Summary Data Graph On Disabled Workers Under Disability Insurance—(Numbers in thousands) Updated November 8, 2004

http://www.ssa.gov/OACT/STATS/dibGraphs.html#1

Applications For Disability Benefits And Benefit Awards

http://www.ssa.gov/OACT/STATS/table6c7.html

Flow Of Cases Through The Disability Process—Fiscal Year 2002 Data

http://www.ssa.gov/disability/disability_process_welcome_2002.htm

NOTE: These Federal regulations are being violated on a daily basis all over the country:

404.1642 Processing time standards

http://www.ssa.gov/OP_Home/cfr20/404/404-1642.htm

(a) General. Title II processing time refers to the average number of days, including Saturdays, Sundays, and holidays, it takes a State agency to process an initial disability claim from the day the case folder is received in the State agency until the day it is released to us by the State agency. Title XVI processing time refers to the average number of days, including Saturdays, Sundays, and holidays, from the day of receipt of the initial disability claim in the State agency until systems input of a presumptive disability decision or the day the case folder is released to us by the State agency, whichever is earlier.

(b) Target levels. The processing time target levels are:

(1) 37 days for title II initial claims.

(2) 43 days for title XVI initial claims.

(c) Threshold levels. The processing time threshold levels are:

(1) 49.5 days for title II initial claims.

(2) 57.9 days for title XVI initial claims.

[46 FR 29204, May 29, 1981, as amended at 56 FR 11020, Mar. 14, 1991]

404.1643 Performance accuracy standard

http://www.ssa.gov/OP_Home/cfr20/404/404-1643.htm

In closing, I ask that in future Congressional hearings, members of the Social Security Disability Coalition including myself, be allowed to actively participate in the hearing process instead of being forced to always submit testimony in writing, after the main hearing takes place. We are willing to testify in person or via teleconference before Congress and we should be permitted to do so. We seek creation of a task force made up of disabled Americans, members of Congress, members of the National Social Security Council and members of the Social Security Disability New Approach program to reform the Social Security Disability program which actually is in crisis now. We want to have claimants who have actually gone through the SSD system themselves to be part of this task force that participates in any and all discussions on the future of the Social Security and especially the Social Security Disability program. We also want major input and influence on the decision making process before any final decisions/changes/laws are instituted by members of Congress or the SSA. This is absolutely necessary, since nobody knows better about the flaws in the system and possible solutions to the problems, then those who are forced to go through it and deal with the consequences when it does not function properly. **Any changes that occur have a direct major impact on our lives and well being.**

Most of us were once hard working, tax paying citizens with hopes and "American dreams" but due to an unfortunate accident or illness, have become disabled to a point where we can no longer work. Does that mean we are not valuable to our country, or give the government and politicians the right to ignore or even abuse us? Due to circumstances beyond our control, and on top of our disabilities, we now live the American nightmare with no hope of relief in sight! Contrary to popular opinion, nobody willingly chooses this type of existence. Anyone reading this, could suddenly find themselves dealing with these issues in the future. Nobody thinks this horrible existence could ever happen to them, but there are millions of Americans who are suffering and dying due to this negligence, and our lives depend on your cleaning up this mess immediately! We are often considered a drain on society, rather than the valuable citizens, that we have proven many times over, in spite of our disabilities to be. Congress is supposed to work FOR us, yet our cries and screams are continually ignored, in hope that we just shut up or die. I am here to tell you that is not going to happen and we are holding Congress accountable for the future health and well being of the disabled citizens of this nation. You have the power and ability to fix these problems and rather than leave a legacy of devastation and death, I hope Congress will create one of health and well being for ALL Americans. We want to help you make that happen, and look forward to the challenge. We are watching, we are waiting, we are disabled and we vote!

Statement of Sandra E. Thompson, Rocky River, Ohio

This letter is written to encourage changes to an unfair and discriminatory practice that exists within Social Security. In particular, the Windfall Elimination Tax is treating many teachers unfairly. Although the No Child Left Behind act stresses the importance of hiring highly qualified teachers, when a highly qualified person goes into the teaching field they may discover that their social security benefits will be drastically reduced. I believe that Social Securityneeds to evolve to meet the needs of a changing society.

I am facing this situation when I retire next year. I worked in scientific research for 17+ years before becoming a certified teacher. I paid social security taxes on my salary as a research associate. At the time I changed careers I also changed states. Little did I know that I would lose most of my social security benefits by teaching in Ohio. I do not pay social security taxes but am paying into the State Teachers Retirement System. When I retire after teaching 15 years, my social security benefits will be reduced by 2/3rds. Many teachers retire with 30 years and great benefits. I was counting on the 17 years with social security to take the place of the 15 years I cannot attain in the teaching field.

Many people are unaware of this discriminatory practice. I have met a number of people (40–50 years of age) changing careers to become teachers. For the most part they are highly qualified and will bring great experiences to the classroom. When they learn that their social security benefits will be reduced, they have to decide whether to pursue teaching or not. At age 50, they may not be hired in time to start a career in education and work enough years to qualify for certain retirement benefits through a teacher retirement program.

It is unfair to be penalized for changing careers and bringing great experiences into the classroom. Highly qualified teachers are needed! In leaving no child behind, let's not leave our teachers behind.

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