SOCIAL SECURITY'S FUTURE

HEARING

BEFORE THE

SUBCOMMITTEE ON SOCIAL SECURITY

OF THE

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

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SOCIAL SECURITY'S FUTURE

MONDAY, JANUARY 26, 2004

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON SOCIAL SECURITY,
Boca Raton, FL

The Subcommittee met, pursuant to notice, at 10:00 a.m., at the Live Oak Pavilion at Florida Atlantic University, 777 Glades Road, Boca Raton, Florida, Honorable E. Clay Shaw, Jr. (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
January 16, 2004
SS–6

CONTACT: (202) 225–9263

Shaw Announces Field Hearing on Social Security's Future

Congressman E. Clay Shaw, Jr., (R–FL), Chairman, Subcommittee on Social Security of the Committee on Ways and Means, today announced that the Subcommittee will hold a hearing on Social Security's Future. **The hearing will take place on Monday, January 26, 2004, at the Live Oak Pavilion at Florida Atlantic University, 777 Glades Road, Boca Raton, Florida, beginning at 10:00 a.m.**

Oral testimony at this hearing will be from invited witnesses only. Also, 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:

For over 60 years, Social Security has provided essential protection against loss of income due to retirement, disability, or death for workers and their families. As a result, the number of seniors living in poverty has decreased in the past 45 years. In 1959, one third of seniors had income below the poverty line compared with one tenth of seniors today.

Yet, Social Security is much more than a retirement program. In return for the hard-earned Social Security taxes they pay, workers and their families can also count on Social Security disability benefits in the event of a long-term disability. That's important, since almost 3 in 10 of today's 20-year-olds will become disabled before full retirement age. In addition, Social Security survivor benefits are available to young children and their parents if the family breadwinner were to die. Unfortunately, 1 out of every 7 Americans will die before full retirement age.

It is not only because of disability and survivor insurance that younger workers have a vital interest in Social Security. The Social Security taxes paid by both younger and older workers today are the funds used to pay Social Security benefits to current retirees, survivors, and disabled workers. In other words, Social Security benefits would not be paid if workers and their employers did not contribute about $1 out of every $8 of earnings to Social Security. Americans of all ages need to understand Social Security's full range of benefits and how they are financed in order to recognize their stake in Social Security's future.

While Social Security will continue to be there for future generations, the 2003 annual report of the Social Security and Medicare Board of Trustees concluded that in approximately 15 years, the system will begin to run cash shortfalls that will grow in severity each subsequent year. Social Security will still be able to pay full benefits until 2042 by redeeming Treasury bonds held in the trust funds, but honoring the bonds will place growing pressure on the rest of the government's budget. After that point, revenues are projected to cover only about three-fourths of benefit costs and even less thereafter. This occurs about the same time as today's 20-year-olds will be entering retirement.

Demographics largely drive the program's financing problem. Families are having fewer children and advances in medicine are enabling people to live longer. As a result, there will be fewer workers supporting each retiree in the future.

In announcing the hearing, Chairman Shaw stated: "Today's young people have a huge stake in the choices we make to strengthen Social Security. I'm pleased that Florida Atlantic University is hosting this hearing to focus students on Social Security's relevance to their lives. These young people are Social Security's future, and they will bear the burden should policymakers fail to act."

FOCUS OF THE HEARING:

The hearing will focus on Social Security's role in providing income security, program financing, factors causing Social Security's financial challenges, the consequences of inaction, choices policymakers face, and issues for the Subcommittee to consider as they move forward.

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Please Note: Due to the change in House mail policy, any person or organization wishing to submit a written statement for the printed record of the hearing should send it electronically to *hearingclerks.waysandmeans@mail.house.gov*, along with a fax copy to (202) 225–2610, by the close of business, Monday, February 9, 2004. Those filing written statements who wish to have their statements distributed to the press and interested public at the hearing should deliver their 200 copies to the West Palm Beach District Office of Congressman E. Clay Shaw, Jr., 222 Lakeview Avenue, Suite 225, West Plam Beach, Florida 33401, by the close of business, Thursday, January 22, 2004. Please note that in the immediate future, the Committee website will allow for electronic submissions to be included in the printed record. Before submitting your comments, check to see if this function is available.

FORMATTING REQUIREMENTS:

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

1. All statements and any accompanying exhibits for printing must be submitted electronically to *hearingclerks.waysandmeans@mail.house.gov*, along with a fax copy to (202) 225–2610, in WordPerfect or MS Word format and MUST NOT exceed a total of 10 pages including attachments. Witnesses are advised that the Committee will rely on electronic submissions for printing the official hearing record.

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

3. All statements must include a list of all clients, persons, or organizations on whose behalf the witness appears. A supplemental sheet must accompany each statement 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 SHAW. Good morning, and welcome. Social Security, as all of us in this room know, is the bedrock of retirement security

for Americans. Without it, almost half of seniors today would be living in poverty. Social Security is important to Americans of all ages, not just our parents and grandparents, and not just to me, who is someone who is soon to be 65. Sadly, one in seven Americans die before they reach retirement. Social Security provides benefits to help ensure the financial security for the families who've lost loved ones too soon. Today, there will be about 1.4 million young people under the age 19 receiving survivor benefits due to the loss of a parent.

Additionally, roughly 30 percent of 21-year-olds today will become disabled before retirement; that is a startling statistic. Social Security provides benefits to help these Americans whose disabilities have hindered their ability to work. Today, there are about 150,000 young people under the age of 30 receiving disability benefits. Though younger Americans tend to believe Social Security is something they won't have to worry about until they are much older, today's young people may need Social Security more than they realize. If their goal is to retire at age 62 and have a retirement income equal to 80 percent of their salary, a 21-year-old earning the average wage of $36,000 annually will need to save approximately $1.4 million to supplement their Social Security.

Social Security has an immediate impact on your life the minute you first start drawing a paycheck. You and your employers pay $1 out of every $8 that you earn to support Social Security and pay benefits to today's seniors. That means your Social Security taxes equal about a month and a half of wages if you work full time. For about 80 percent of families, Social Security taxes are the largest Federal tax that they pay. While Social Security has been enormously successful, the program's ability to pay the benefits we have promised faces serious challenges in coming years due to the Nation's changing demographics. Thanks to modern medicine, people are living longer. In addition, families are having fewer children. This, combined with the quickly approaching retirement of the baby boom generations, means there will be fewer workers to support each person receiving benefits.

Since Social Security taxes are used immediately to pay benefits to today's seniors, the decline in the number of workers supporting each beneficiary means the program's costs are growing faster than the tax base supporting it. By the time today's 20-something year olds reach retirement age, Social Security taxes will only cover about 75 percent of the promised benefits, or even less thereafter. It is interesting, one of the interesting statistics is that when Social Security was first put into law, there were some 40 workers for every 1 retiree. Now we are down to about three, and soon it will be two. The math is very simple. Congress has to act to do this for future generations.

Every Member of Congress, every Member, is committed to securing Social Security's future. The question is, and what divides the Congress, is, how? Ultimately, decisions need to be made whether to reduce benefits, increase payroll taxes, or find other ways to increase Social Security's revenues. Last week, in his State of the Union address, the President highlighted his view that younger workers should have the opportunity to build a nest egg through voluntary personal retirement accounts. I agree, which is

why I have introduced H.R. 75, the "Social Security Guarantee Plus Plan." My plan would allow workers to voluntarily establish a personal account that they own, control, and in which their families can inherit. Everybody would be guaranteed to receive benefits no less than promised under current law, regardless of how their investments perform. In addition, my plan increases benefits to those in need.

Every proposal to strengthen Social Security has benefits and consequences that must be carefully considered by the Congress. However, as we move forward, I want to make one point perfectly clear: the Social Security debate is not about securing benefits for today's seniors or those nearing retirement. They will receive every penny they earned and have been promised. I do not know of any plan that does anything to today's seniors or people who are near retirement that would in anyway change the benefit or the basic structure of Social Security as it is today. This debate is about young workers, including the students here at Florida Atlantic University (FAU), and future generations who will pay the price if we fail to act. Indeed, if we do fail to act, they will pay the price.

I am pleased to welcome the Deputy Commissioner of Social Security, James Lockhart. I am pleased to welcome the witnesses on our second panel, which you will soon meet. They are your friends, colleagues, and neighbors who have taken time from their busy schedules to share their personal experiences and recommendations with the Subcommittee. Each of you has a profound stake in the future of Social Security. I challenge the students here at FAU to take what you learn here today to create a forum for discussion in the classrooms, through your school newspaper, and in public debates. Following these deliberations, I encourage you to write to me with your recommendations on how best to save Social Security. Your views and your vote will make a difference.

[The opening statement of Chairman Shaw follows:]

Opening Statement of The Honorable E. Clay Shaw, Jr., Chairman, and a Representative in Congress from the State of Florida

Social Security is the bedrock of retirement security for Americans. Without it, almost half of seniors today would be living in poverty. But, Social Security is important to Americans of all ages, not just our parents and grandparents.

Sadly, one in seven Americans die before they reach retirement. Social Security provides benefits to help ensure the financial security for the families who lost loved ones too soon. Today, there are about 1.4 million young people under the age of 19 receiving survivor benefits due to the loss of a parent.

Additionally, roughly 30 percent of twenty-year-olds today will become disabled before their retirement. Social Security provides benefits to help these Americans whose disabilities have hindered their ability to work. Today, there are about 150,000 young people under age 30 receiving disability benefits.

Though younger Americans tend to believe Social Security is something they won't have to worry about until they are much older, today's young people may need Social Security more than they realize. If their goal is to retire at age 62 and have a retirement income equal to 80 percent of their salary, a 21-year old earning the average wage of about $36,000 annually today will need to save roughly $1.4 million to *supplement* Social Security.

Social Security has an immediate impact on your life the minute you first start drawing a paycheck. You and your employer pay $1 out of every $8 you earn to support Social Security and pay benefits to today's seniors. That means your Social Security taxes equal about one and a half months of wages if you work full time. For about 80 percent of families, Social Security taxes are the largest Federal tax they pay.

While Social Security has been enormously successful, the program's ability to pay the benefits we've promised faces serious challenge in coming years due to the nation's changing demographics. Thanks to modern medicine, people are living longer. In addition, families are having fewer children. This, combined with the quickly approaching retirement of the baby boom generation, means there will be fewer workers to support each person receiving benefits.

Because Social Security taxes are used immediately to pay benefits to today's seniors, the decline in the number of workers supporting each beneficiary means the program's costs are growing faster than the tax base supporting it. By the time today's twenty-somethings reach retirement age, Social Security taxes will only cover about 75 percent of promised benefits, and even less thereafter.

Every Member of Congress is committed to securing Social Security's future. The question is, how? Ultimately, decisions need to be made whether to reduce benefits, increase payroll taxes, or find other ways to increase Social Security's revenues. Last week, in his State of the Union address, President Bush highlighted his view that younger workers should have the opportunity to build a nest egg through voluntary personal retirement accounts.

I agree, which is why I have introduced the Social Security Guarantee Plus plan. My plan would allow workers to voluntarily establish a personal account that they own, control and which their families could inherit. Everybody would be guaranteed to receive benefits no less than promised under current law, regardless of how their investments perform. In addition, my plan increases benefits to those most in need.

Every proposal to strengthen Social Security has benefits and consequences that must be carefully considered. However, as we move forward, I want to make one point perfectly clear: the Social Security debate is not about securing benefits for today's seniors and those nearing retirement—they will receive every penny they earned and have been promised. This debate is about young workers, including students here, and future generations, who will pay the price if we fail to act.

I am pleased to welcome the Deputy Commissioner of Social Security, James Lockhart. I am also pleased to welcome the witnesses on our second panel, which you will soon meet. They are your friends, colleagues, and neighbors, who have taken time from their busy schedules to share their personal experiences and recommendations with the Subcommittee.

Each of you has a profound stake in the future of Social Security. I challenge the students of Florida Atlantic University to take what you learn here today to create a forum for discussion in your classrooms, through your school newspaper, and in public debates. Following these deliberations, I encourage you to write to me with your recommendations for how best to save Social Security. Your views and your vote *will* make a difference.

Now, I would like to go over some of the matters pertaining to this particular hearing. This is a congressional hearing. It is not a townhall meeting. We have a recorder who will make everything that goes on here today a part of the congressional record. Because of time constraints, we will hear the witnesses who are appearing here today. However, anyone here that wishes to submit written testimony, certainly can do so and we would welcome your testimony in writing to be made a part of the congressional record.

I am pleased also to welcome representatives from the Social Security Administration (SSA) who have set up a table just outside of the hearing room. Also, I have my staff from both the Palm Beach and Broward County office here to assist you in any ways that you may need if you have personal problem that you would like to discuss with them that we don't address during this particular hearing. It is no coincidence that we are here at FAU. This will be the second college campus that we have been on. We were at the University of Missouri, and now we are here.

My motive in being here is that I want to motivate young people. It is hard to get young people excited about retirement, but they should know that they are paying into a system that will be jeopardized by the time they get into the retirement age. All of us

should be very much concerned about those that come after us, as well as of course the today's seniors, in being sure that the program stays strong and intact.

I would like to introduce the President of FAU, Frank Brogan, who has a few remarks, hopefully of welcome, to the Committee, and while he is coming to the microphone, state that Democrat Members were also invited to participate in this hearing. The staff is here, as well as my own Washington staff. This is not a partisan hearing. It is a hearing only to inform and be informed. Mr. Brogan, former Lieutenant Governor of the State of Florida, and one of my favorites.

Mr. BROGAN. Good morning, Mr. Chairman. Good morning, sir, and welcome to you. Welcome to Commissioner Lockhart, to the witnesses who will be part of the two panels today. Thank you for your time and contributions to this important hearing. Welcome to your staff, Chairman Shaw, and to our guests at FAU today. I walked in with several of our guests from the parking lot and had the opportunity to hear already some of the feelings that people have toward this incredibly important issue. I have also had the chance to meet a couple of alum here this morning who are in the audience who remarked at how much the campus is changing, Mr. Chairman, and I said that a big part of our landscape these days includes a crane on every corner of the campus. We are growing by leaps and bounds. We are at over 26,000 students at FAU now, spread out on 7 campuses from Fort Lauderdale to Vero Beach. We have every conceivable college undergraduate program and graduate program, and, of course, we are rapidly making a significant name for ourselves in the area of applied research.

So, we are delighted to have all of you here to serve as hosts for this important hearing, but any time we have the opportunity to bring people to our campuses for the first time, I am convinced it sells itself, and we hope that you will return. We have enormous and successful lifelong learning programs, more than 25,000 students, in addition to the 26,000 part-time and full-time students at FAU, are lifelong learners. They are students who come here to take a course or additional courses in areas of interest in the world of continuing and lifelong education. So, we not only offer traditional university life, but also an important slice of life to our lifelong learners, who are traditionally for us made up of seniors who just have a thirst for continuing education.

This particular topic, Mr. Chairman, is very important to those of us at FAU. So, we are glad you are hosting this meeting, that is, not only those of us who are moving toward advanced age, but also equally important to those who are 18, 19, and 20 years old, who are in those classrooms today. Now your comment is right on point; it is very difficult for a 20-year-old to think about their retirement years, and yet I can tell you from personal anecdote how important it is.

Many, many years ago, when I was about 3 years old, my 5 brothers and sisters and I lost our father at a very, very early age. My father, when he passed away, left six children and a mother with an eighth-grade education and no real-world work skills other than those that she had honed along the way. She knew how to clean; she knew how to cook. She took those skills out into the

marketplace. She cleaned people's homes, and she worked in kitchens and in restaurants to feed us and clothe us and shelter us because "dear old dad," as I'm fond of saying, left us with a lot of wonderful things; money just did not happen to be one of them.

A big part of what we needed was the survivor benefit that went along with the Social Security program even at that point, but, my mother would have been the first one to tell you, it was not very big. Anyone who believes that the survivor benefit can become the staple to support a family, those of us who know better, and my mother did, will tell you it was an important contribution to our quality of life but it in no way, shape, or form provided us with what we needed as a seven-member family in those days to get where we needed to go.

I fast forward to about 5 years ago. I lost another Member of my family at a very early age. Congressman, you, as an old dear friend, know that I lost my wife, Mary, to breast cancer at 43 years of age, and I found out again what the survivor benefit was all about. Fortunately, I was not reliant upon it, but it did trigger to me again the size of the survivor benefit and the impact that it has on life—not mine, but I thought about the many, many people who lose a spouse early on and those who have children and need to be able to provide for them. Once again, this is an ongoing and important discussion about Social Security and its appropriateness and state for the 21st century.

So, for young people, especially in this conversation today, and for senior citizens, Social Security, how big it is and what it looks like in the 21st century in your wisdom, is a very important topic of discussion for all of us. It is every bit as important to have that discussion with senior citizens and those who are middle aged, as it is to have with the 18 and 19-year-old students of our community, because, indeed, we are shaping today, the future of Social Security for those who will come many, many years after we are gone. It is important that, as you mentioned Mr. Chairman, we maintain its viability for seniors today, and also that we begin to look at Social Security for 20, 30, and 50 years down the road, for those who are in those classrooms today who may not be thinking about it the way they should, but who someday will be turning their attention to this incredibly important discussion.

So, I leave you with two commendations. One, I think these hearings have the opportunity to continue to educate people on this important and very complicated issue. Two, these hearings provide a chance to engage people of all ages and all backgrounds in the dialog, the discussion, and the debate as to the future of Social Security in our country. So, we are indeed privileged to have you, the Members of the Committee, and all of our guests here today on the campus of FAU.

I believe, as President of the institution, that we are not just a university in a host community; we are part of this community, and therefore, we need to engage this university in the dialogs and discussions that take place for the greater community. On a personal note, Mr. Chairman, thank you for your years of service. Not just to south Florida and to Florida, but also the United States. You are a great friend of this State and this country. I am not surprised that you are here today with this very important issue, and

I am very grateful that you have chosen to come to FAU. Thanks for the chance to be here today.

Chairman SHAW. Thank you, sir. Thank you very much. We very much appreciate that welcome. I well remember your deceased wife and how she could light up a room just by her presence. I say you are very, very fortunate to have had her as long as you did. I will also say that FAU is also very fortunate to have you here. We look forward to working with you on not only this, but many, many projects. I know your excitement about scripts and other things and it is going to involve the education process. Excuse me. I thank the President for being here. Thank you very much, Frank.

Mr. BROGAN. Thank you.

Chairman SHAW. We appreciate it.

Mr. BROGAN. Thank you very much.

Chairman SHAW. Our first witness this morning is James Lockhart. He's the Deputy Commissioner of the SSA. We very much appreciate your coming for this particular hearing, and we look forward to your testimony. Witnesses today, we have a 5-minute rule which will be enforced. However, for the Commissioner, in that he is setting forth many of the facts that are going to be the subject of this hearing, he is not limited. I understand that he is going to speak for about 15 minutes.

Mr. Lockhart.

STATEMENT OF HONORABLE JAMES B. LOCKHART, III, DEPUTY COMMISSIONER, SOCIAL SECURITY ADMINISTRATION

Mr. LOCKHART. Thank you, Chairman Shaw. Thank you for inviting me to FAU to discuss the important issue of strengthening Social Security. I would like to commend you for keeping this vitally important issue before the American people. It affects all Americans. President Bush and we at Social Security think that strengthening Social Security is a critical issue. Commissioner Barnhart has made it one of our four major strategic goals.

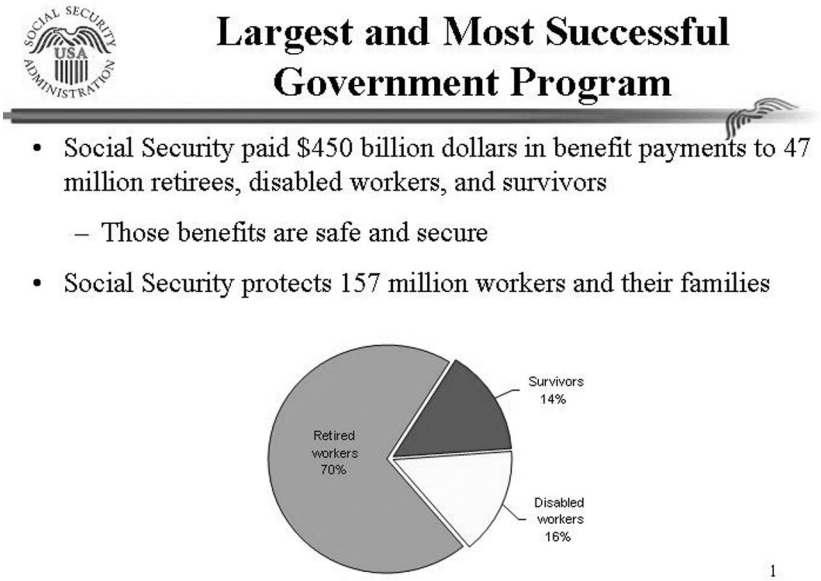
Today, Social Security is running surpluses, but the Social Security program as currently financed is unsustainable over the long-term. I must emphasize, as President Bush has said repeatedly, that benefits promised to current retirees and those nearing retirement are safe. Changes to strengthen Social Security would not result in benefit reductions for retirees or near-retirees, but will help their children and grandchildren.

Social Security touches the lives of nearly everyone in America. That may be why the Social Security Act (P.L. 74–271) was recently voted in a poll conducted by the U.S. National Archives as one of the top 10 documents in American history. We're up there with the Declaration of Independence and the Constitution. Social Security continues to be one of the most successful government programs. Last year we paid over $450 billion in benefits to 47 million retirees, survivors, disabled individuals and their dependents. Social Security is much more than a retirement program. Thirty percent, a fact you can see in this chart, are disabled or survivors. Survivors are widows, widowers, and children.

Nearly 157 million American workers paid Social Security taxes last year. They, their families, and the millions joining the system

every year, are relying on Social Security for a major portion of their future financial security.

[The chart follows:]



Social Security is essentially a "pay-as-you-go" system with today's payroll taxes paying today's benefits. The combined employee and employer payroll tax is 12.4 percent on earnings up to $87,900 this year. Over the years, the Social Security payroll tax has actually been increased 19 times, and now 80 percent of workers are paying more in the combined tax, employee and employer payroll taxes, than they are in income taxes.

Benefits have also changed over the years as well. Just last year, due to a reform enacted 20 years ago in 1983, the normal retirement age is gradually starting to increase to eventually age 67. This year the age to collect full benefits is 65 years and 4 months. People can still collect Social Security retirement benefits at an early retirement age of 62, but the reduction will be greater as the normal retirement age increases.

[The chart follows:]

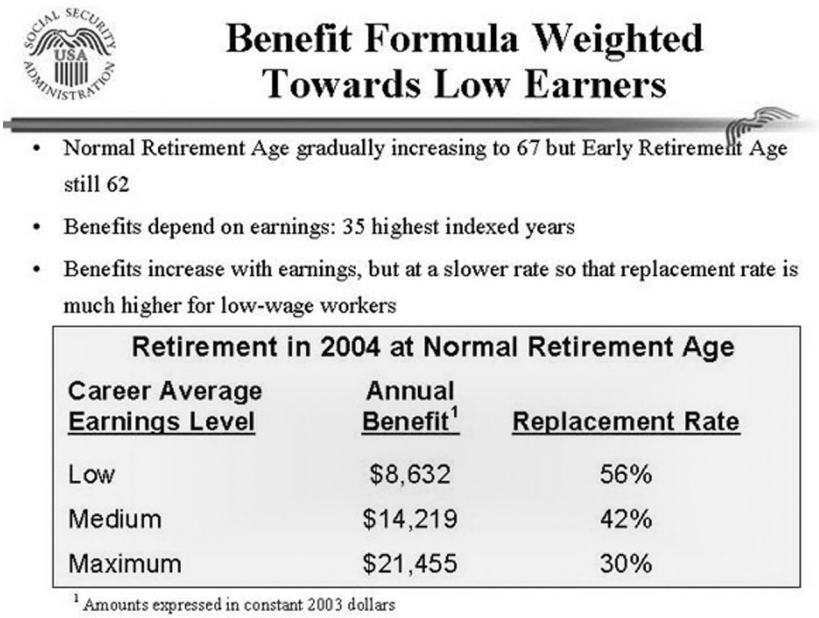
Social Security Taxes Have Grown

- The Social Security payroll tax rate has been increased 19 times
- The Social Security payroll tax rate is now 12.4%
  - 6.2% each from employee and employer
- Taxes are paid on earnings up to $87,900 in 2004 (94% of workers are below cap)
- Over 80% of workers pay more in combined payroll tax than income tax

2

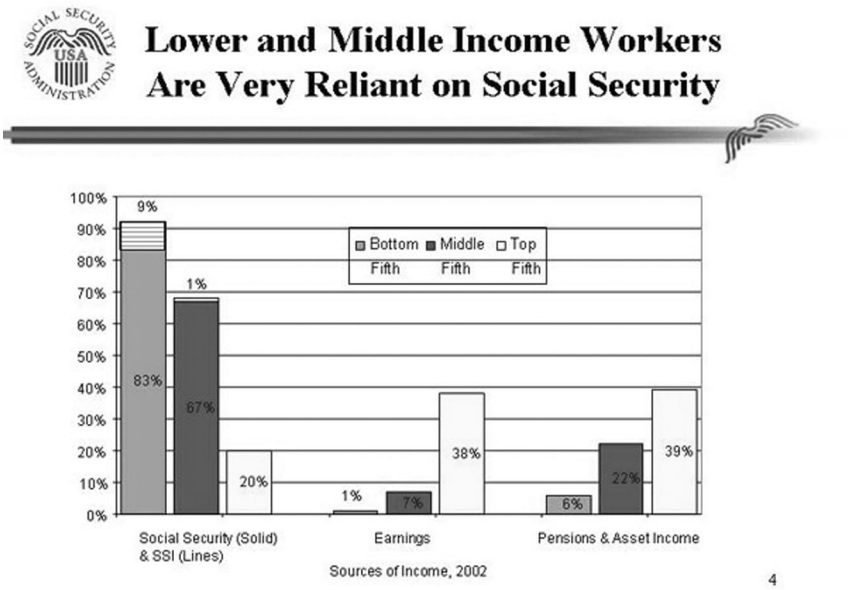
Using the highest 35 years of earnings, the program has been designed to protect lower income workers such that their wage replacement rate is approximately 56 percent versus only 30 percent for a maximum wage earner. Those lower wage-earners are very reliant on Social Security benefits in retirement. Now, if you could give me chart four. There you go. Thank you.

[The chart follows:]



As the first two bars on bar chart four show, the bottom quintile of retirees rely on Social Security and our means tested Supplemental Security Income program for 92 percent of their income while the middle quintile still relies on the two programs, almost all Social Security, for 68 percent. Of course, this is just retirees. It's an extremely important source of income for over 14 million disabled workers and survivors.

[The chart follows:]



The Social Security Trust Funds are growing because payroll and income taxes paid on benefits currently exceed benefits. In this chart I've tried to show that. In 2002, we had about $85 billion in excess income over expenditures; tax income of $548 billion and expenditures of about $462 billion, and then we also had interest on the Trust Fund of about $80 billion. All these amounts were invested in special issue U.S. Department of the Treasury bonds making the money available for other government needs. In 2002, the Trust Funds grew to $1.4 trillion, an increase of almost 14 percent.

[The chart follows:]

Trust Fund Continues to Grow

Trust Fund in Billions of Dollars

Start 2002	$1,213	Trust Fund Invested in Special Issue (S.I.) Treasury Bonds
	+ 80	S.I. Treasury Bonds Issued to Pay Interest
	+ 85	Excess of Tax Income ($547) Over Expenditures ($462) Invested in S.I. Treasury Bonds
End 2002	$1,378	Trust Fund Invested in S.I. Treasury Bonds

5

For many years, the trustees have stated that Social Security is unsustainable at scheduled benefit and tax rates. The pressure on the program's finances will begin in just 4 years, in 2008, when the first baby boomers, of which I'm on the leading edge, will reach early retirement age. After that year, Social Security tax surpluses begin to decline. Beginning in 2018, the program is projected to begin paying out more in benefits than it collects in taxes. At that time, the program will begin redeeming Trust Fund assets, consisting of those special issued government bonds, which will need to be repaid from funds from somewhere else in government.

By 2042, the trust fund will be exhausted. In addition to the $1.4 trillion I mentioned that's in the trust funds today, the trust funds would need another $3.5 trillion today, and we would need that today earning interest to be able to pay all scheduled benefits for the next 75 years. No one can really understand trillions, but to put it in context that's about equal to the total public portion of the national debt today. This unfunded obligation increased $200 billion just last year. Without reforms, it will just continue to grow and grow, year after year.

The goal of strengthening Social Security is not simply to make the program solvent through 75 years, but rather, to achieve sustainable solvency; making Social Security permanently solvent. Absent any benefit or tax changes, adding $10.5 trillion to the trust fund today is required to achieve sustainable solvency for the infinite future. That is the equivalent of almost $100,000 for each American family today. Without action, the shortfall will continue to grow at a compounding rate.

[The chart follows:]

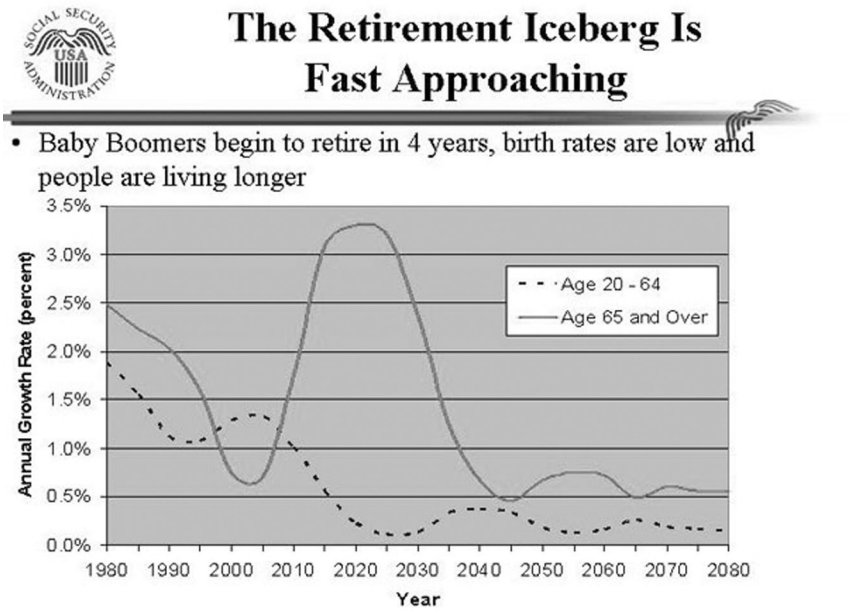
Trustees: Timely Action Needed

- Social Security is unsustainable at scheduled benefit and tax levels over the 75-year period
- Pressure on the program's finances will begin in 2008, when the first baby boomers reach early retirement age
- Cash flow turns negative in 2018 and the Trust Fund is exhausted in 2042
- Since last year's report, Social Security's 75-year long-term deficit has increased from $3.3 trillion to $3.5 trillion
- $10.5 trillion would be sufficient to achieve sustainable solvency over the very long term

6

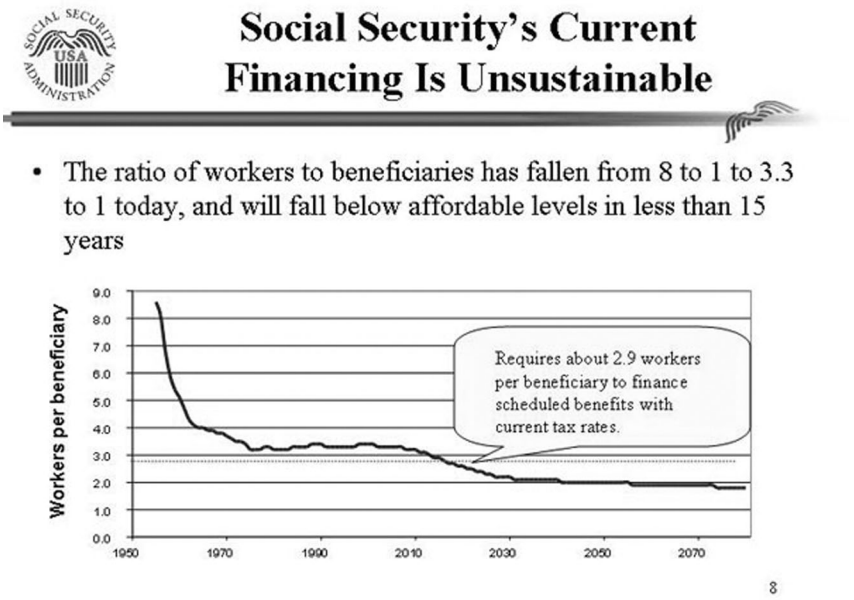
The reason Social Security is unsustainable is very simple; it's the aging of America. People are living longer, which is very good news, the birth rate is low, and the first baby boomers, as I said, will be eligible to retire in just 4 short years. This combination means that the growth rate of retirees shown by the solid line in this chart will begin to greatly exceed the growth rate of workers, and over the 75 years it's always higher. As the chart shows, it is a looming iceberg we are about to face.

[The chart follows:]



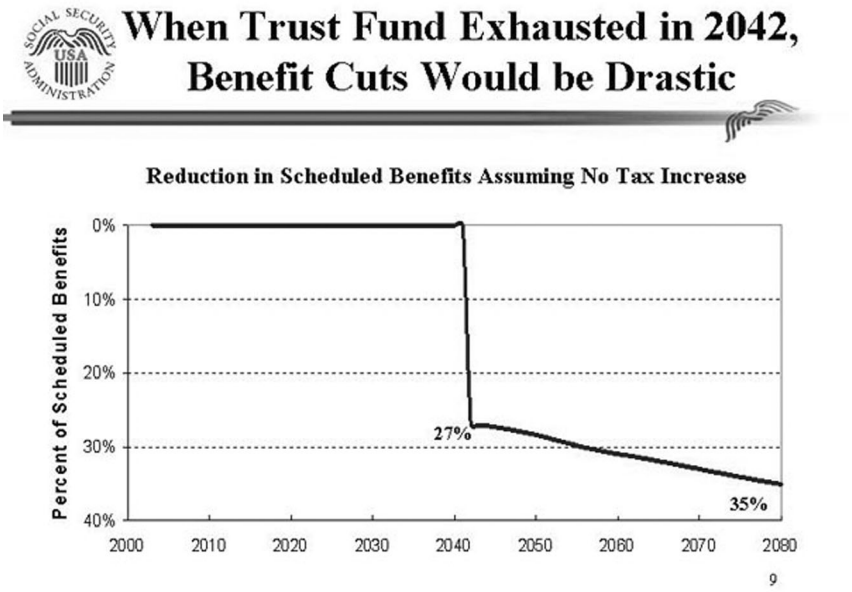
The ratio of workers to beneficiaries has fallen, as the Chairman has said, from about 8 to 1 in 1955 to about 3.3 today. In less than 15 years, it will fall below what is the unsustainable level, and what I mean by unsustainable, under current law is that scheduled taxes would be insufficient to cover scheduled benefits. It will continue to fall thereafter hitting almost 2 to 1 in 2031.

[The chart follows:]



Last year the U.S. General Accounting Office (GAO) issued a report on what may happen to the Social Security program when the trust funds became exhausted. The answer is shown on this chart. In 2042, scheduled benefits would be cut by 27 percent; that means anyone born in 1975 and thereafter, including my two children and many of the students in this audience, will never have a year of full benefits as promised under current law, even though they'll be continuing to pay full years of taxes.

[The chart follows:]



In today's dollars, that's a reduction of about $600 per month, or $7,200 a year for a typical one-earner married couple. Even many of the later baby boomers will have many years of reduced benefits. By the end of the 75-year period, the benefit reduction would be 35 percent and continue to fall thereafter. The trustees of Social Security and the Comptroller General call for action sooner rather than later. Starting sooner, changes can be phased in more gradually reducing the need for any sudden and severe impact on American workers and their families. It will allow them plenty of time to properly plan for retirement.

[The chart follows:]

Action Is Needed Sooner Rather than Later

- Reform alternatives are well-known:

  1. Payroll Tax Increases

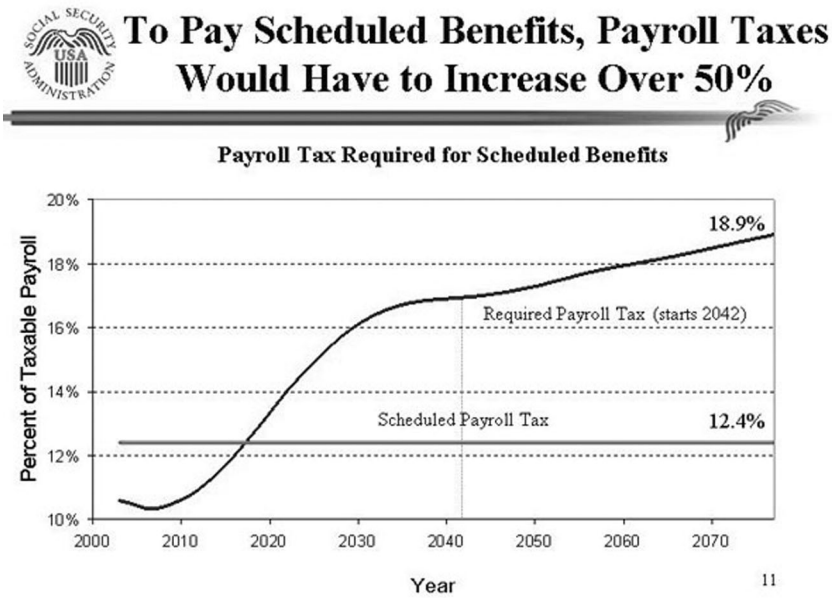
  2. Benefit Reductions
     - For younger generations
     - Not for today's retirees and near-retirees

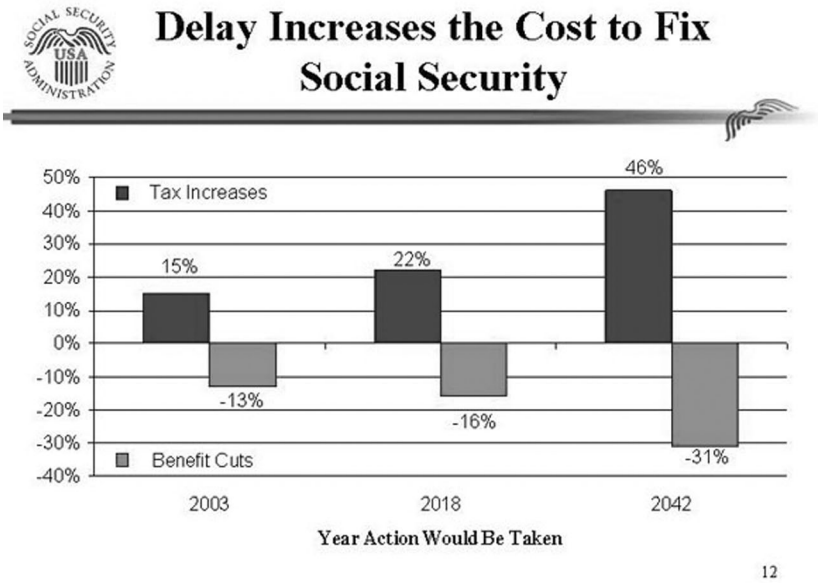
  3. Increases in Return on Investments
     - Direct investment by government
     - Personal accounts held by individuals

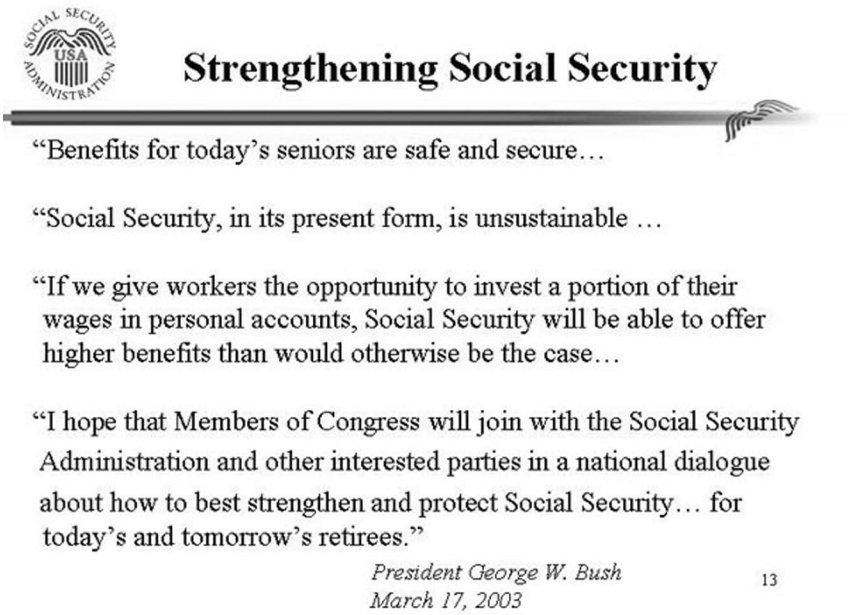
10

As I said, action is needed sooner rather than later. The reform alternatives are very well known. First of all, payroll tax increases have been the traditional reform. Over the last 50 years, taxes have grown almost 8fold in today's dollars for the average earner, and for the maximum earner they've actually grown 14fold. Benefit reductions have been rare, although the increase in the retirement age that I mentioned is effectively a reduction in the growth of benefits. Again, I think this is critical. I want to emphasize that the President's first principle is that any changes to the benefit structure will not affect today's retirees or near-retirees.

[The charts follow:]


To Pay Scheduled Benefits, Payroll Taxes Would Have to Increase Over 50%
Payroll Tax Required for Scheduled Benefits
Percent of Taxable Payroll
20%
18%
16%
14%
12%
10%
18.9%
Required Payroll Tax (starts 2042)
Scheduled Payroll Tax
12.4%
2000
2010
2020
2030
2040
2050
2060
2070
Year
11


Delay Increases the Cost to Fix Social Security
Tax Increases
Benefit Cuts
50%
40%
30%
20%
10%
0%
-10%
-20%
-30%
-40%
15%
-13%
22%
-16%
46%
-31%
2003
2018
2042
Year Action Would Be Taken
12



A more creative solution is to set aside money to pre-fund, and increase the rate of return from Social Security funds. This can be done in either of two ways: by direct investment by the government of the Social Security Trust Funds in corporate stocks or bonds, or by allowing individual Americans to invest in personal accounts. The President has expressed his support for voluntary personal accounts, and opposes government investment of the trust fund in the stock market. Personal accounts can reduce the burden on future generations of workers and increase the benefits that Social Security can afford to pay.

Now, let me turn to tax increases, because that has been the traditional way to fix the program. To pay scheduled benefits over the next 75 years the combined Social Security tax would have to increase from today's 12.4 percent to almost 17 percent when the trust fund runs out of money in 2042, and by the end of the 75-year period it would have to be 18.9 percent. That is that is more than a 50-percent increase in payroll taxes. If we had an increase anywhere near that, that would have a very negative impact on the American workers and their families, on American savings, and really the whole U.S. economy.

Clearly, achieving sustainable solvency will be no easy task. However, delay only makes the task much more difficult. Solely as an illustration, if you look at the top boxes there, to reach 75-year solvency, there would need to be an immediate 15-percent increase in payroll taxes, and if we wait until 2018, there would need to be a 22-percent increase. If we wait until the trust funds are exhausted in 2042, a 46-percent increase. Likewise, benefit reductions would grow, from 13 percent needed in cuts last year, and 16

percent in 2018, to almost a third by 2042. Obviously, the unattractiveness of relying exclusively on tax increases and benefit reductions has led Republicans and Democrats to look for other options. Mr. Chairman, your own thoughtful proposal, the Social Security Guarantee Act of 2003, and many other proposals, including those of President Bush's Commission to Strengthen Social Security, would establish personal accounts within Social Security. Combined with other changes, personal accounts can lead to a permanently sustainable Social Security system.

Personal accounts for younger generations would help most workers, and in some plans, all workers receive much higher total retirement benefits than are presently payable, or even scheduled. The accounts will allow more personal choice, and will be inheritable. They also would raise the American savings rate and economic growth.

Volatility of stock market returns is overcome with regular investing and long-term diversified index funds, which have done much better than Treasury bonds even at the bottom of the last bear market, and certainly after last year's recovery. Some have suggested that the seed financing from general revenue, that many personal account proposals require, is not affordable. However, if we do not reform Social Security, $10.5 trillion, as I said, would be needed to enable the current program to pay scheduled benefits over the infinite future.

Most proposals analyzed by the SSA's independent actuaries containing personal accounts would significantly reduce the taxpayer's long-term cost. Each of these proposals contains its own balance between additional funding and the amount of benefits paid to future retirees. Families throughout America face a similar choice: how much can they afford to put aside in savings toward their own retirement? The more they put aside now, the less they will need to produce later; the same is true for Social Security. Truly, "a stitch in time could save nine."

In March 2003, Social Security's Board of trustees presented its annual report to President Bush personally. At this meeting, the President reiterated his support for action to strengthen Social Security soon. He said, "benefits for today's seniors are safe and secure." Social Security, in its present form, is unsustainable for the long term. If we give workers the opportunity to invest a portion of their wages in personal accounts, Social Security will be able to offer higher benefits than would otherwise be the case.

Lastly, I hope that Members of Congress will join with the SSA and other interested parties in a national dialog about how best to strengthen and protect Social Security for today's and tomorrow's retirees. This hearing is part of that process of working together. We will continue to work with Congress and outside groups to build a bipartisan consensus on how to strengthen Social Security for future generations. As important as the program is today, it will become even more important when today's boomers become tomorrow's aged. Since 1935, America has provided financial security for its older citizens, and, since 1957, for the disabled. We can, and must, do so in the future.

In conclusion, I would like to just quote the old seafaring wisdom, which is, "the world isn't interested in the storms you encoun-

tered, but whether or not you brought in the ship." We can sail straight into that perfect storm or we can change course. The sooner we change course, the smaller the changes will be, and the sooner we can remove the uncertainties about Social Security's future. As we look at those here today, we can be proud that Social Security is here for today's seniors and we double our commitment to ensure that Social Security will also be there for their children and grandchildren; today's students. Mr. Chairman, I again thank you for your very strong leadership in the bipartisan effort to strengthen Social Security. I will be happy to answer any questions. Thank you.

[The prepared statement of Mr. Lockhart follows:]

Statement of The Honorable James B. Lockhart, III, Deputy Commissioner of Social Security, Social Security Administration

Chairman Shaw, Members of the Social Security Subcommittee, thank you for inviting me to Florida Atlantic University today to discuss the important issue of strengthening Social Security. I would like to take this opportunity to commend the Chairman for holding this hearing, and keeping this vitally important issue before the public.

It's always a pleasure to get outside the Washington Beltway to discuss this issue, as it is one that affects all Americans, all around the country. President Bush and we at Social Security think strengthening Social Security is a critical issue and Commissioner

Jo Anne Barnhart has made achieving sustainable solvency one of Social Security's four major strategic goals.

I would like to begin by discussing the current status of the Social Security program and how it works. Then I will address the financial challenges Social Security will face in the future. The numbers I will cite come directly from the 2003 Annual Report of Social Security's Board of Trustees.

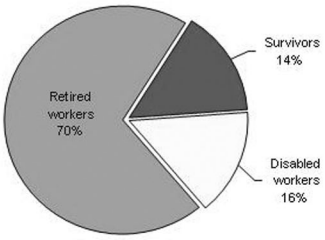
Today, Social Security is running surpluses, but the Social Security program as currently financed is unsustainable over the long term. I must emphasize, as President Bush has repeatedly, that the benefits promised to current retirees and those nearing retirement are safe. Changes proposed to address Social Security's future financing shortfalls will not result in benefit reductions for retirees or near-retirees.

Social Security touches the lives of nearly everyone in America by paying benefits, issuing Social Security cards, and recording tax and earnings records. That is why the Social Security Act was recently voted in a poll conducted by the National Archives as one of the top 10 documents in American history, sharing that distinction with the Declaration of Independence and the Constitution among others. The Social Security Act and the Civil Rights Act were the only two pieces of legislation selected.

Social Security continues to be one of the most successful government programs. (Chart 1) Last year SSA paid over $450 billion in benefits to 47 million retirees, survivors, and disabled individuals and their dependents. Social Security is much more than a retirement program. Thirty percent of our beneficiaries are disabled or survivors—widows, widowers and children. Nearly 157 million American workers paid Social Security taxes last year. They, their families, and the millions joining the system every year, are relying on Social Security for a major portion of their future financial security.

Largest and Most Successful Government Program

- Social Security paid $450 billion dollars in benefit payments to 47 million retirees, disabled workers, and survivors
  - Those benefits are safe and secure
- Social Security protects 157 million workers and their families



1

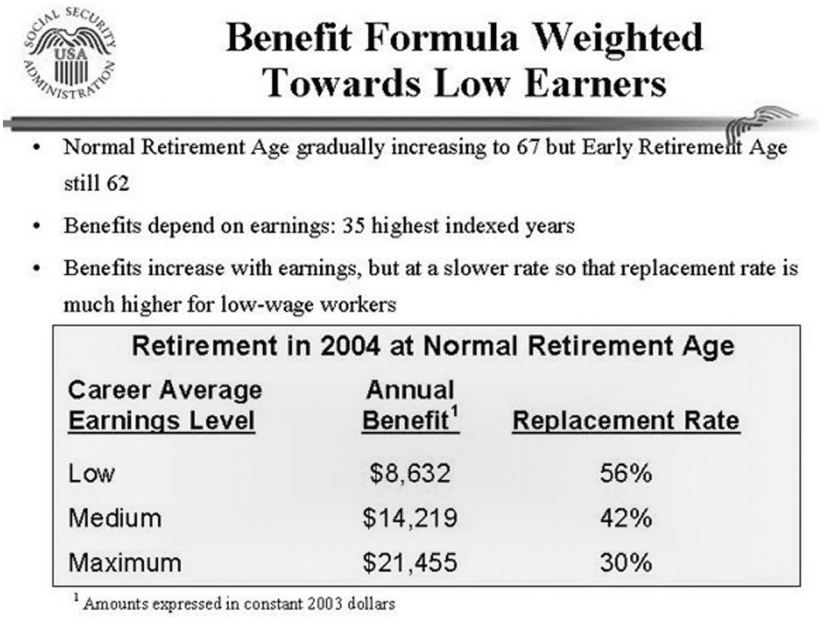
Social Security is essentially a "pay-as-you-go" system with today's payroll taxes paying today's benefits. (Chart 2) The combined employee and employer payroll tax is 12.4 percent on earnings up to $87,900 in this year. Over the years, the Social Security payroll tax rate has been increased 19 times. According to the Congressional Budget Office, 80 percent of workers are paying more in combined employee and employer payroll taxes than in income taxes.

Social Security Taxes Have Grown

- The Social Security payroll tax rate has been increased 19 times
- The Social Security payroll tax rate is now 12.4%
  - 6.2% each from employee and employer
- Taxes are paid on earnings up to $87,900 in 2004 (94% of workers are below cap)
- Over 80% of workers pay more in combined payroll tax than income tax

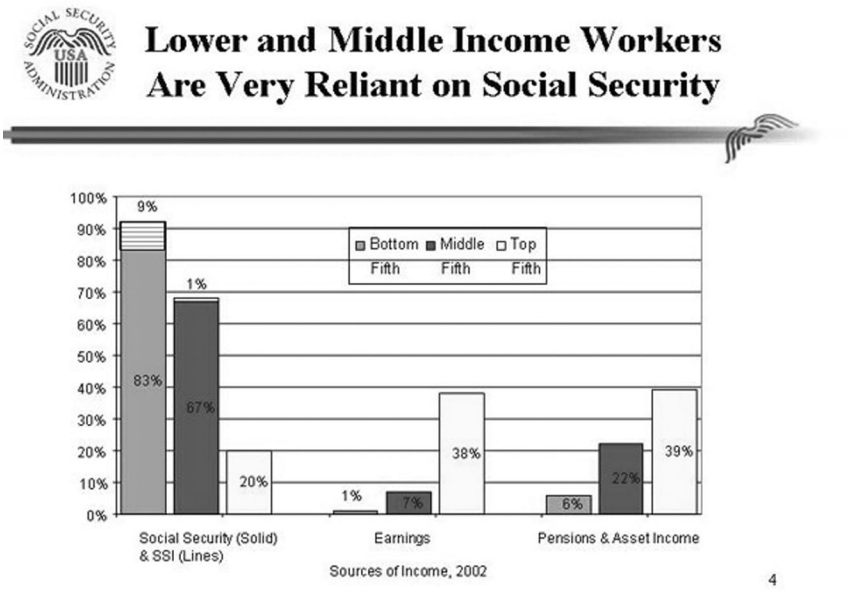
2

Benefits have also changed over the years. (Chart 3) Just last year, due to a reform enacted 20 years ago, the normal retirement age is gradually starting to increase to eventually age 67. This year the age to collect full benefits is 65 years and 4 months. People can still collect Social Security retirement benefits as early as age 62, but the reduction will be greater as the normal retirement age increases.



Using the highest 35 years of earnings, the program has been designed to protect lower income workers such that their wage replacement rate is approximately 56 percent versus only 30 percent for a maximum wage earner.

Those lower wage-earner retirees are very reliant on Social Security benefits in retirement. As Chart 4 shows, the bottom quintile of retirees rely on Social Security and our means-tested Supplemental Security Income (SSI) program for 92 percent of their income while the middle quintile receive 68 percent from Social Security and SSI. And of course, Social Security is an extremely important source of income for over 14 million disabled workers and survivors.



The combined old age and disability trust funds are growing because payroll and income taxes paid on benefits currently exceed benefit payments. (Chart 5) Historically, the excess of taxes less benefit payments and small administrative payments is invested in special issue Treasury bonds, making the money available for other current government needs. In 2002 the funds grew to $1.4 trillion—an increase of 14 percent over the prior year. It should be noted, however, that half of that growth was from bonds issued to the fund to pay interest on existing assets.

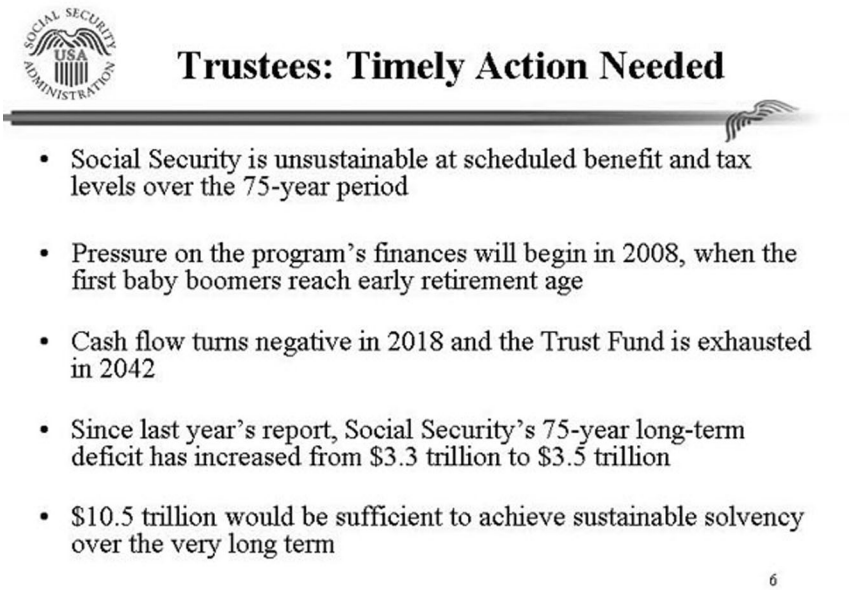
Trust Fund Continues to Grow

Trust Fund in Billions of Dollars

Start 2002	$1,213	Trust Fund Invested in Special Issue (S.I.) Treasury Bonds
	+ 80	S.I. Treasury Bonds Issued to Pay Interest
	+ 85	Excess of Tax Income ($547) Over Expenditures ($462) Invested in S.I. Treasury Bonds
End 2002	$1,378	Trust Fund Invested in S.I. Treasury Bonds

5

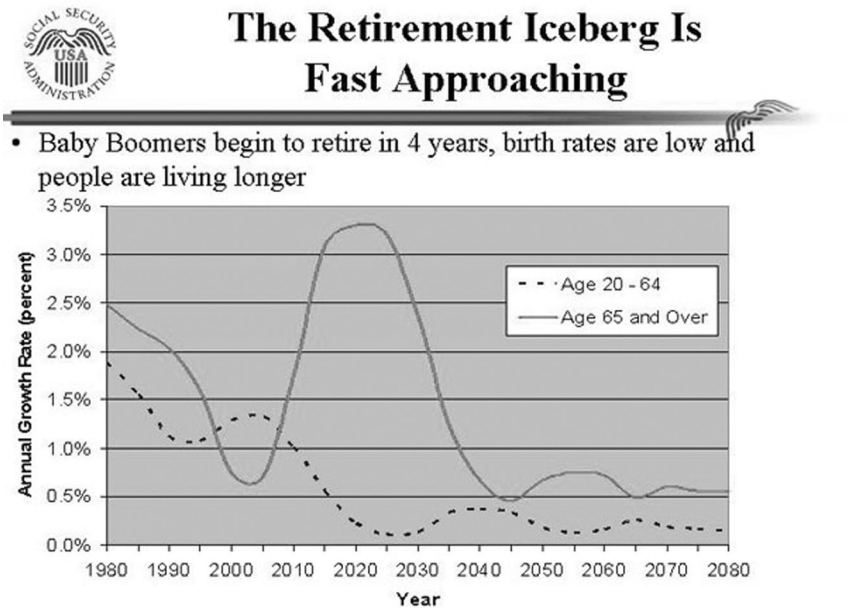
For many years, the Trustees have stated that Social Security is unsustainable at scheduled benefit and tax rates. (Chart 6) They point out that pressure on the program's finances will begin in 2008, when the first baby boomers reach early retirement age and Social Security tax surpluses begin to decline. Beginning in 2018 the program is projected to begin paying out more in benefits than is collected in taxes. At that time the program will begin redeeming trust fund assets, consisting of government bonds, which will be repaid using Federal funds. By 2042, it is projected that all of the Treasury bonds that make up the trust fund assets will have been cashed in, and the Social Security trust fund assets will be exhausted.



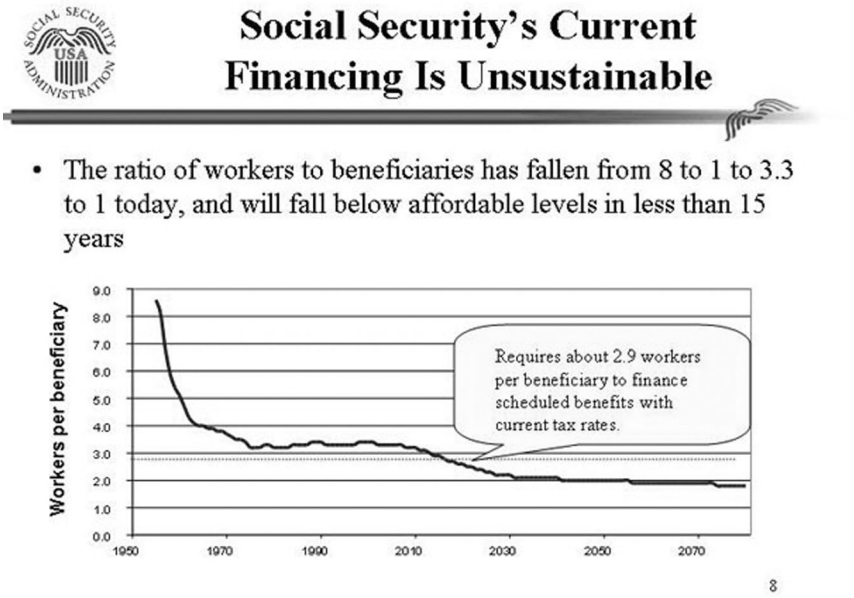
The trust funds would need an additional $3.5 trillion today to be able to pay all scheduled benefits for the next 75 years. That means that, in addition to current Trust Fund assets, a lump sum of $3.5 trillion today, earning interest at the Treasury bond rate, would be sufficient to meet annual revenue shortfalls over the next 75 years. This $3.5 trillion is a figure roughly equal to the total public portion of the national debt. This measure of unfunded benefit obligations increased $200 billion in just one year. Absent any action to address this situation, this steady growth in the shortfall will continue, year after year.

Traditionally, the Trustees have measured the long-term financial health of the Social Security system by evaluating the system's operations over a 75-year period. However, the goal of strengthening Social Security is not simply to make the Social Security program solvent through 75 years but rather to achieve sustainable solvency, that is, to *maintain* solvency beyond the 75-year period and make Social Security permanently solvent. For this reason, the 2003 Trustees Report included a measure of the program's funding shortfall over the infinite horizon. Absent any benefit or tax changes, adding $10.5 trillion to the trust fund today would achieve sustainable solvency. This is the equivalent of almost $100,000 for each American family today. Without action the shortfall will continue to grow at a compounding rate.

The reason Social Security is unsustainable under current law is very simple—the aging of America. (Chart 7) People are living longer, the birth rate is low and the first baby boomers will be eligible to retire in 4 years. This combination means that the growth rate of retirees will begin to greatly exceed the growth of workers. As the chart shows, it is a looming iceberg.

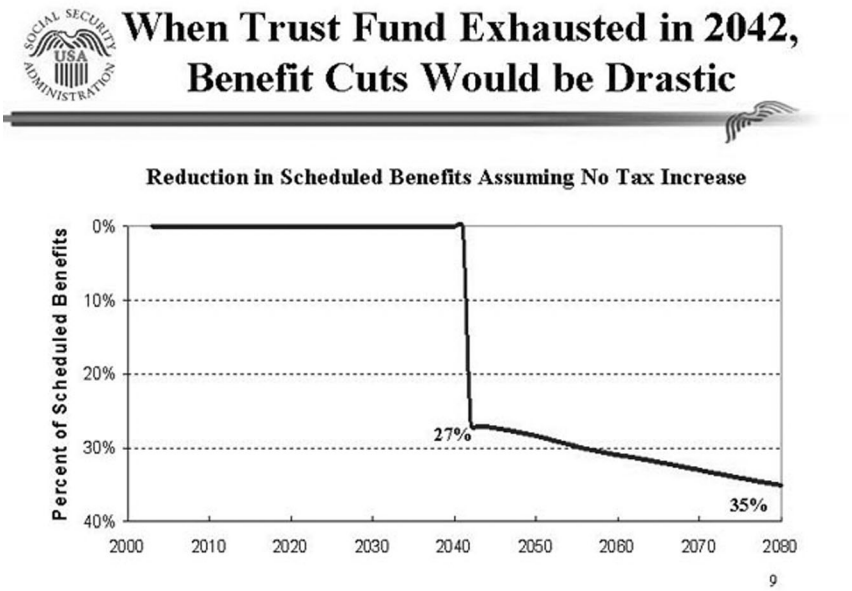


The ratio of workers to beneficiaries has fallen from 8 to 1 in 1955 to 3.3 today. (Chart 8) In less than 15 years the ratio will fall to the unsustainable level of 2.9, at which time taxes received will be less than benefits payable.



Last year the General Accounting Office (GAO), at the request of the Congress, issued a report on what would happen to the Social Security program when the trust funds became exhausted. As both the GAO report and the Trustees' Annual

Report show, in 2042 scheduled benefits would be cut by 27 percent. (Chart 9) That means anyone born in 1975 and thereafter, including my two children, will never have a year of full benefits as promised under current law.

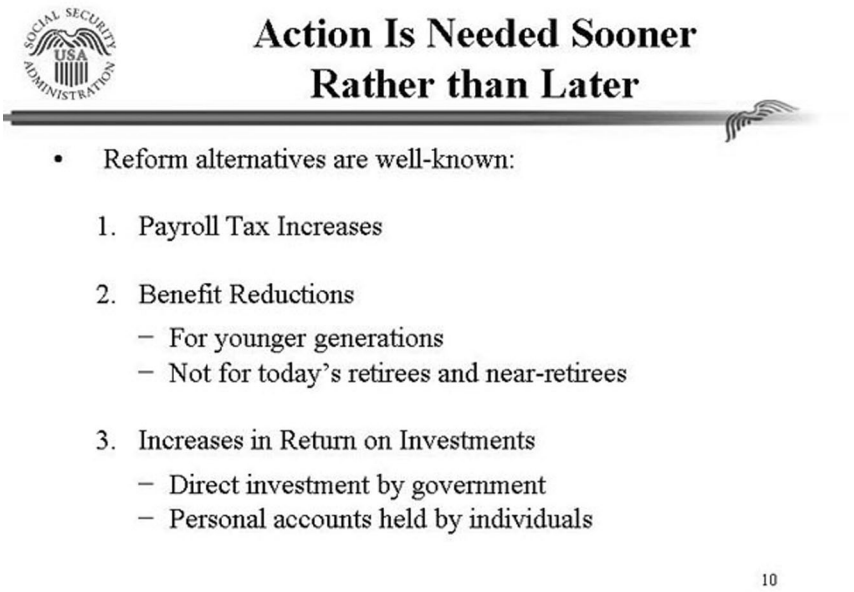


In today's dollars, that would mean a reduction of over $600 per month or $7,500 a year for a married couple. Even many of the later baby boomers will have many years of reduced benefits. By the end of the 75-year period, the benefit reduction would be 35 percent. As the Comptroller General of the U.S. has testified, the study "dramatically illustrates the need for action sooner rather than later."

The Trustees said in their Annual Report, "The sooner adjustments are made, the smaller and less abrupt they will have to be." Changes can be phased in more gradually and spread over generations, reducing the need for any sudden and severe impact on American workers and their families. For example, the changes enacted to increase the retirement age in 1983 started last year—20 years later—and were phased in over several decades.

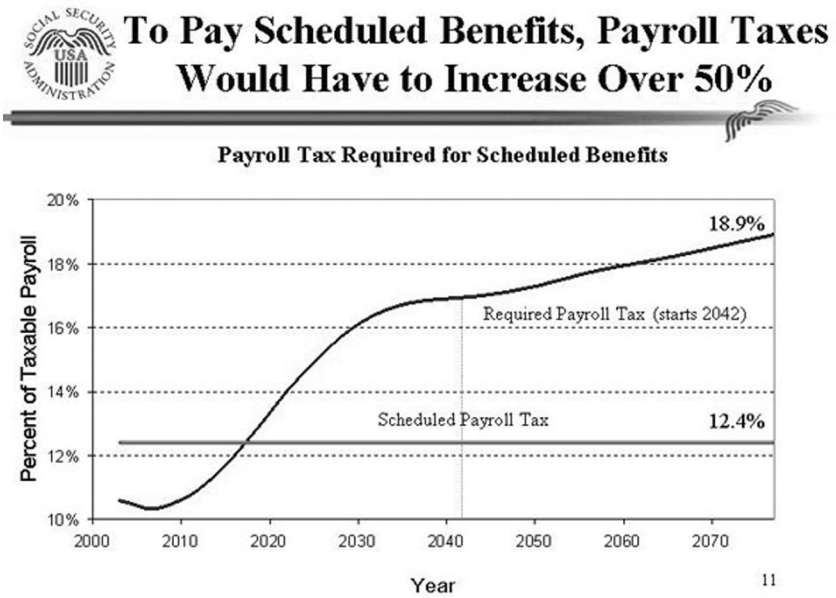
Early action will also allow current workers plenty of time to properly plan for their retirement. And finally, the sooner action is taken, the sooner confidence can be restored to the Social Security program.

Reform alternatives are very well known as follows: (Chart 10)

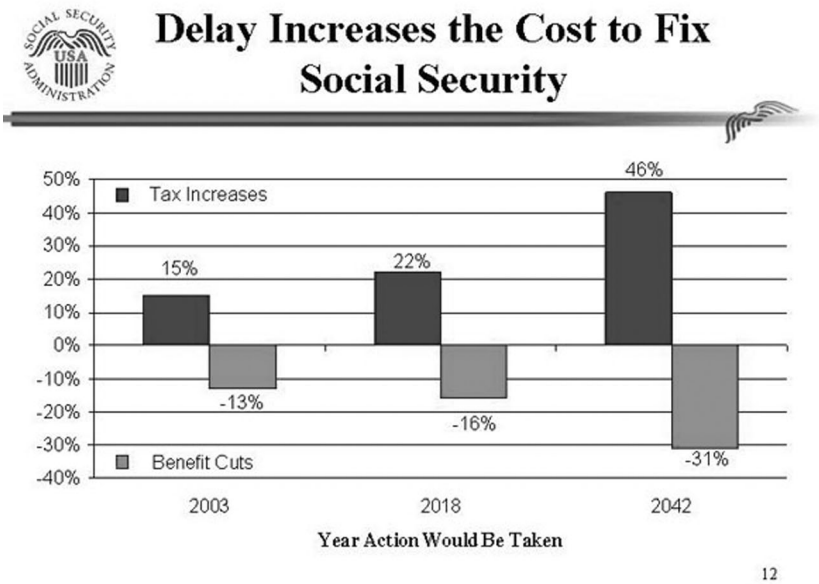


- Payroll tax increases have been the traditional reform. Over the last 50 years they have grown almost eight-fold in today's dollars for the average earner and over 14-fold for the maximum earner.
- Benefit reductions have been rarer although the increase in the retirement age is effectively a reduction in the growth of benefits. Again, I want to emphasize that the President's first principle is that any changes to the benefit structure will not affect today's retirees or near-retirees.
- A newer and more creative solution is to set aside money today to prefund future benefits and to increase the rate of return on Social Security funds. This can be done either by direct government investment in corporate stocks and bonds or by allowing individual Americans to invest in personal accounts The President has expressed his support for voluntary personal accounts, and opposes government investment of the Trust Fund in the stock market. Proponents suggest that moving Social Security partially toward a funded rather than a pay-as-you-go program can reduce the burden on future generations of workers and increase the benefits Social Security can afford to pay.

Turning to tax increases, to pay scheduled benefits over the next 75 years the combined Social Security tax would have to increase from today's 12.4 percent to almost 17 percent in 2042 and to 18.9 percent by 2077. (Chart 11) That is over a 50 percent increase in taxes, which would have a very negative impact on American workers and their families, on savings, and on the whole US economy.



Clearly, achieving sustainable solvency will be no easy task. However, delay only makes the task more difficult. (Chart 12) Solely as an illustration of the costs involved to reach solvency just through 2077, there would need to be either an immediate 15 percent increase in payroll taxes or a 13 percent reduction in benefits. If we wait until 2018, there would need to be a 22 percent increase in payroll taxes or a 16 percent reduction in benefits. And if we wait until the trust funds are exhausted in 2042, if nothing is done, payroll taxes would have to be increased by 46 percent, or benefits cut by nearly one-third.



The unattractiveness of relying exclusively on tax increases and benefit reductions to bring Social Security to balance, has led Republicans and Democrats to look for additional options. Mr. Chairman, this includes your own thoughtful proposal, the Social Security Guarantee Act of 2003. Your proposal and many other proposals, including those of President Bush's Commission to Strengthen Social Security, would establish personal accounts within Social Security. Combined with other changes personal accounts can help lead to a permanently sustainable Social Security system.

Personal accounts for younger generations could help most workers receive much higher total retirement benefits than are presently payable. The accounts, which allow more personal choice and control, would be inheritable in many of these proposals. They also would raise the private savings rate.

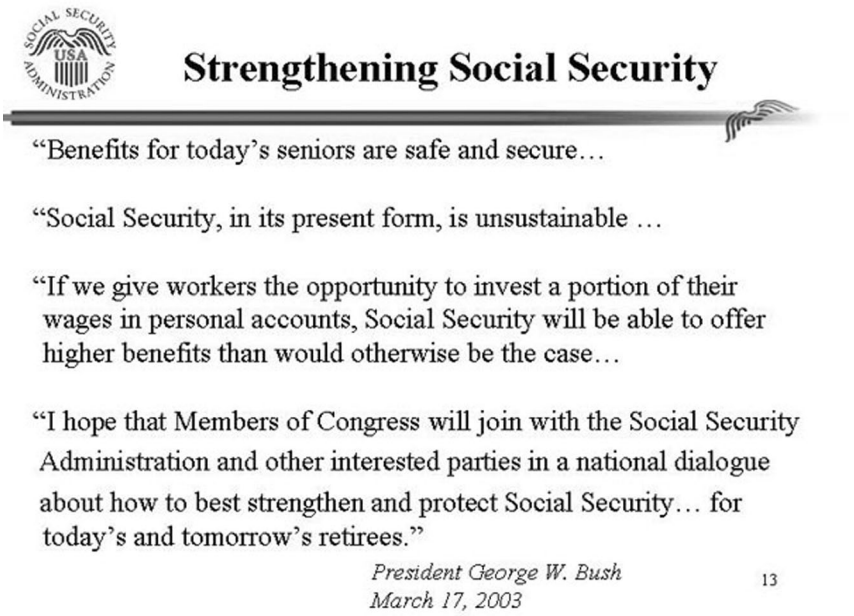
Opponents of personal accounts cite the volatility of stock market returns as a major negative. However, with regular investing proponents point out that over the long term, balanced, diversified funds have done better than Treasury bonds even at the bottom of the last bear market, and certainly after last year's recovery. Absent changes, scheduled benefits under the current program would have to be reduced 27 percent by 2042.

The other counter argument is that the required "seed" financing from general revenue that many personal account proposals require is not affordable. If we do not reform Social Security, as I have noted, $10.5 trillion in present-value dollars would be needed to enable the current program to pay scheduled benefits indefinitely. By setting aside money today in personal retirement accounts the expected cost to the taxpayer of paying scheduled benefits could be considerably reduced.

Most proposals analyzed by SSA's actuaries containing personal accounts would significantly reduce the long term cost of paying benefits. Each of these proposals contains its own balance between additional funding and the amount of benefits paid to future retirees. Families throughout America face a similar choice: how much can they afford to put aside in savings towards their own retirement? The more they put aside now, the less they will need to produce later; the same is true for our Social Security system.

Truly, "a stitch in time could save nine." As President Bush has said, "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."

In March 2003, Social Security's Board of Trustees presented its annual report to President Bush personally. At this meeting, the President reiterated his support for action to strengthen Social Security, saying: (Chart 13)



> ". . . the Trustees confirmed that benefits for today's seniors are safe and secure. Promises made can and will be kept. The Trustees also once again have delivered a sobering message—Social Security, in its present form, is unsustainable for the long term. I share the Trustees' view that we need to explore new ways to ensure that Social Security remains strong and financially secure for America's children and grandchildren.

"I am encouraged by the unprecedented level of bipartisan interest in Social Security modernization. Many comprehensive proposals have been put forward to strengthen Social Security for the long term. Although these proposals differ in details, they are consistent in showing that if we give workers the opportunity to invest a portion of their wages in personal accounts, Social Security will be able to offer higher benefits than would otherwise be the case.

. . . I hope that Members of Congress will join with the Social Security Administration and other interested parties in a national dialogue about how best to strengthen and protect Social Security. I look forward to working with Congress to see that Social Security remains sound and strong for today's and tomorrow's retirees."

This hearing, I hope, will be part of that process of working together to fulfill our obligations to the Social Security program and the hundreds of millions of Americans it serves, today and in the future. The Social Security Administration will continue to work with this subcommittee, other Members of Congress and outside groups to build this national dialogue into a bipartisan consensus on how to strengthen Social Security for future generations.

There is no other Federal program that touches the lives of so many Americans. And as important as the program is today, it will become even more important in the next few decades, when today's boomers become tomorrow's aged. Since 1935, America has found a way to provide financial security for its older citizens and, since 1957, for the disabled. We can and must find the way to do so in the future without unduly burdening succeeding generations.

In conclusion, I would like to just quote the old seafaring wisdom that I found applicable in my Navy days, which is "the world isn't interested in the storms you encountered, but whether or not you brought in the ship." We can sail straight into that perfect storm or we can change course. The sooner we change course, the small-

er the changes will be and the sooner we can remove the uncertainties about Social Security's future.

I believe that this will be the true test of our own work. Storms of controversy often surround the issue of how to provide retirement security. As we look at those here today we can be proud that Social Security is here for today's seniors and redouble our commitment to ensure that Social Security will also be there for their children and grandchildren—today's students.

Mr. Chairman, I again commend you for holding this hearing and for your efforts in keeping this issue before the public and, especially, for your very strong leadership in the bipartisan effort to strengthen Social Security. I will be happy to answer any questions you or the other Members have.

Chairman SHAW. Thank you, Mr. Lockhart. One of the problems, and I think you hit on it in your last sentence, is the bipartisan effort that is desperately needed. I was Chairman of the Subcommittee on Human Resources, and offered the Welfare Reform Bill (P.L. 104–193). It was vetoed several times by President Clinton, but then President Clinton came aboard for the final draft, and he signed that into law, and I think, that because of the bipartisan nature, it has been one of the most successful pieces of social legislation, I think in decades. It has reduced the welfare rolls all across this country by 50 percent. People are proud. So, many of these parents, particularly single moms, have become role models for their kids. The kids are proud of what has happened, and it's done, I think, a tremendous amount of good.

Had this bill gone through with an override of President Clinton's veto, it would not have been nearly as successful. It would have looked as if it were a Republican ambush on the poor, which of course, it was not. It was designed and built to strengthen the poor, and give them control of their lives, and get them away from the addiction of welfare. Similarly, we are looking at a situation where we should reach out and continue to reach out for bipartisan support. You brought up the fact, and this is something that I would like to underscore here, that, what is the year, 2018?

Mr. LOCKHART. Yes, sir.

Chairman SHAW. That Social Security will no longer be sustainable as a pay-as-you-go system, and that is simply because there will not be enough paid into the system to pay the bills and to take care of the seniors in the system in 2018. Now, many will comment and say that, well, you still have those Treasury bills, and the Treasury bills certainly are secure. Well, yes, but we've got to figure out how to get the money.

I think it was Chairman Greenspan that testified before my Committee in Washington that said the Treasury bills held by the SSA are not real economic assets. Now, a lot of people would be startled with that until you start thinking about it. I could take Mr. Weeke's IOU and it would be a real economic asset if I have it. If he writes it to himself, as the Treasury does to itself, then that would not be a real economic asset. As a matter of fact, I think if you took it to the bank, and showed it as part of your assets, that you maybe get involved in some kind of fraud that you could end up going to jail for.

So, I think that it is very clear that our deadline is not somewhere way out as when we have run out of Treasury bills. The problem is going to start in 2018, and that is a number that is con-

stantly in flux. It was 2016, it went up to 2018, and that could change again. One of the problems, and one of the concerns that I have is that if we start taking money out of the Federal Insurance Contributions Act **(FICA)** tax and put it into individual retirement accounts—and I am all for using individual retirement accounts—but if we start using the FICA money for that, Social Security tax for that, than the 2018 will come earlier because that money would be siphoned off of the money paid into the SSA. Would you comment on that?

Mr. LOCKHART. First of all, I agree with you that 2018 is a very significant date in that if we do not do anything, we will make a call on the general revenues of the Treasury to redeem those bonds and pay the interest on the bonds which today are just being paid in forms of bonds. The Treasury would have to borrow elsewhere, which might cause interest rates to go up. We might have to raise taxes or cut spending somewhere else in the government. By that time Social Security and Medicare will be, by far, the biggest two elements of the government. They already are, and they will be significantly higher. So, there is a big issue in 2018.

I would also suggest that it even starts earlier when us baby boomers just start retirement, because then the surpluses start to shrink. So, it is a big issue, and the sooner we fix it, the better off we will be. As for the issue of how we pay for personal accounts, I think the key thing I always keep trying to remind people is, if we do not do anything over the next 75 years, the cost will be $3.5 trillion, and over the infinite horizon, $10.5 trillion.

So, many of the proposals I have seen are taking short-term seed financing from Treasury to help bridge the gap. In some of the proposals, that happens 20 or 30 years in the future. The key thing is that seed financing will alleviate that whole big drain of $10.5 trillion and instead require significantly less financing, and in many ways it would be a great investment for the American people to put additional money temporarily into Social Security to help fund personal accounts so that Americans can continue to receive significant Social Security benefits.

Chairman SHAW. Well, actually, those that look into the growth within personal accounts have come up with a conclusion under both the Clinton as well as the Bush Administration, that the return on the individual accounts would be greater than the return on the Treasury bills, which would also indicate that if this money were actually borrowed by the Federal government and then invested back into the private sector for each individual worker. I think you are familiar with my plan, which does precisely that. Both the Bush Administration as well as the Clinton Administration have scored this as actually creating a surplus over 75 years and paying every dollar back.

I know I am not going to put you on the spot as to endorse any plan or condemn any plan as the Administration has not rolled theirs out yet, and that will be the one that you are supposed to sell when it comes out, but I hope that the plan that I have will get a fair and complete hearing before the Administration. As we know, the alternative of doing nothing is not acceptable. Our kids will curse us for it or there will be just tremendous amount of borrowing. What is the current figure now if benefits were to stay the

same, for this generation and future generations, over 7 years without increasing the payroll tax and without decreasing the benefits, what is the total deficit that we would be looking at over the 75-year period?

Mr. LOCKHART. Over the 75 year, the deficit is at $3.5 trillion, which as I said, is equal to the national debt of today. So, it's a giant number.

Chairman SHAW. I had heard higher figures than that.

Mr. LOCKHART. Well, certainly if you look longer term, infinite horizon, it is $10.5 trillion, and that to me is the real number if you want to create a system that really works, and we should do that. The cost of personal accounts programs, all that I have seen, have been in the range of $1 to $3 trillion. So, there is a very significant return on investment, if you will, and, as you say, many of those plans, over time, start to repay the Treasury. At the same time, most beneficiaries will receive significantly higher benefits than are payable today, and many will receiver higher than scheduled benefits today. So, if you look at some of the proposals, personal accounts should play a role. Now, my view is that there is a variety of ways to structure personal accounts, and the proposal you have made is certainly one that will be considered as we go forward.

Chairman SHAW. I hope so. I have now 14 grandkids that I would like them to remember their grandfather as having saved it for them without decreasing the benefits. So, my commitment with regard to Social Security reform is, of course, number one to maintain the benefit structure as well as the cost of living increases for the generation of Americans who are in Social Security and soon to be in Social Security. I think it would be less than fair to future generations if we did not look at that and make that part of our commitment to them as well. So, I think we need the big tent there to bring all of them under it, and if we can, we should.

When you look at borrowing by the Federal government to put it in these individual accounts, and knowing that you are going to be able to pay it back and create a surplus in doing so within the system, I think it is also important to realize that that money, where it may come out of the private sector, will be going back into the private sector. So, I think that the effect that it would have on interest rates or capital is negligible, if at all. I think also, it would make—and I think one of the beauties of doing this under all of the plans that involve individual accounts, they're inheritable. That we would be giving to low income people the only chance they would ever have to accumulate any wealth and to create an estate. Particularly with minorities who, more than the caucasians, die before they receive their benefits; they are really getting hammered by the existing system, and this would give them something that would tend to balance the scale a little better, and I think we should be rallying behind these particular programs.

Mr. LOCKHART. Well, I certainly agree with you that we should take a big tent approach, and that is certainly the way Social Security has gone about it. We are trying to build a national dialog on the topic. We have been working with some very major groups, including the American Association of Retired Persons (AARP), and the National Association of Manufacturers (NAM), and I know the

AARP will be going out and talking about this topic. We are going to be going out and talking about it, and certainly the NAM. In fact, all three groups agreed on a set of principles, and one of the important things that we agreed on, first of all, was that no reforms will reduce the benefits of retirees and near-retirees.

Another very important thing that the AARP, NAM, and we agreed on, is that we need action sooner rather than later, and I think that is the critical issue here. If we can make the changes sooner, we will have time for people to plan for the future. We will relieve this uncertainty from future generations, and I will stop getting emails from my children about their future Social Security.

Chairman SHAW. Our witnesses on the second panel will make a number of recommendations to help save Social Security. Before we lose you, I would like you to comment on some of the suggestions that we will hear. We may not lose you. I do not know if the airports are even open in Washington.

Mr. LOCKHART. I will stay here.

Chairman SHAW. After looking at the weather this morning. If we were to allow the tax cuts to expire, thereby rising taxes on moderate income American families with children, married and couples, and others who benefit from the tax cut, would that eliminate Social Security cash flow problems for good?

Mr. LOCKHART. To a certain extent, or to a large extent, they are not that related, as we explained. Social Security has an excess now, and that money is invested in Treasury bonds. The key thing to me is getting the money in Social Security in the form of some sort of investment. If it stays outside of retirement savings, that does not help. Some of the proponents suggest that raising taxes would be a good thing. Obviously, changes in tax rates have dramatic impacts on the economy and economic growth and jobs. All of those are good for Social Security. Certainly economic growth is good for the trust fund. So, to the extent we increase taxes, that would not be good for the trust fund over the long term if it led to lower economic growth and fewer jobs.

Chairman SHAW. Increasing the Social Security tax, as you walked us through in your statement, would certainly have a tremendous hardship effect on low-income people?

Mr. LOCKHART. Yes, sir. As I said, over 80 percent of American workers now pay more in Social Security taxes and Medicare taxes than they do in income taxes. So, it really has become the biggest tax for most Americans, and it is a regressive tax, and certainly raising it would be very bad for the typical American worker.

Chairman SHAW. It has also been recommended by some that the trust fund actually be invested in the private sector. I personally am against that. I think that could take us down a slippery slope that would have some pretty bad effects far out as to putting the Federal government in the board room of corporations as well as showing favoritism for one corporation over another, stock manipulation, and all of these things. What is the Administration's position on that?

Mr. LOCKHART. The Administration very much agrees with you. One of President Bush's principles is against the government investing the trust fund in the stock market. Chairman Greenspan of the Federal Reserve has come out against it. A few months ago,

the Congressional Budget Office did a paper on the topic, and again raised some significant issues about the conflicts of interest.

We are talking about trillions of dollars potentially, and the government owning a large part of the American economy. We could just see if some company was shutting down a factory, there would be a lot of pressure on Social Security not to allow that to happen, and that is the wrong thing. I think it should be left to the individuals, President Bush thinks that, and I think that's important.

Chairman SHAW. Today's retirees and the past retirees have generally received a good return on their Social Security taxes, but that is not expected to be the case for future generations. Could you tell us about what the rates of returns were for past and present retirees, what they are expected to be in the future, and why is this rate of return falling off?

Mr. LOCKHART. I would be happy to. It's only sort of a rate return. I come from the private sector, and rate of return means that you have an asset that is earning something, and some people think Social Security is doing that, but really it is not. It is a pay-as-you-go system. If you mean rate of return from the standpoint that I paid in so many tax dollars and I will get out so many benefits, I can give you those numbers.

Certainly the earliest generation did extremely well from Social Security. Just last year the oldest woman in America passed away, and so we looked up her records. She had paid in only $300 into Social Security in her lifetime, and got out over $150,000. Now, that is a pretty hefty return on investment.

If you look at, for example, my parents' generation. My father has probably paid into Social Security right at the start and throughout his working career. His generation's real return would have been between 7 and 3 percent. Low earners got the higher end and high earners got the lower end in real return. That is well above Treasury bond returns.

My generation will be somewhat lower, 5 to 2 percent. My children's generation will probably have rates of return of 5 to a little above 1 percent. Their children's generation, may have even lower rates of return.

So, the returns are slowly and surely shrinking. It is really hard to tell someone as they enter Social Security today, "oh you are going to put your money away but you are not going to get a good return on it." In fact, you are going to get a negative return on it, and that is another very important reason to look at reforming the system.

Chairman SHAW. That is wrong. It is really wrong that we are not doing something. I want to thank you, again, for being here. Thank you for your testimony, and maybe you could work out some reason you can stay around for a few days, because I tell you it is brutal up north.

Mr. LOCKHART. Thank you, Mr. Chairman.

Chairman SHAW. Thank you, Mr. Lockhart. Okay. Our next panel, if you would come up to the witness table. We have Michael Moore, who is an Immediate Past Student Body Governor of the Boca Raton Campus of FAU. At last, we are going to hear from a young person. Larry Winawer, who is a State organizer for the Alliance for Retired Americans from Wellington. Leon Weekes, who is

immediate past President and on the Board of Directors of the Mae Volen Senior Center in Delray Beach, Florida, and he's accompanied by Elizabeth Lugo, who is the President and chief executive officer of that center in Delray Beach. Dr. Joel Harper, Professor, College of Business at FAU. We were going to have Audrey Mullinix here, but she is not able to be here because of an illness in her family. Welcome to all of you. We have a copy of your written testimony, which will be made a part of the record. You may proceed as you see fit. Mr. Moore.

STATEMENT OF MICHAEL W. MOORE, BOCA RATON, FLORIDA

Mr. MOORE. Thank you, Mr. Chairman. Ladies and gentlemen, my name is Michael W. Moore of Lighthouse Point, Florida, a student of FAU in the College of Business studying small business and entrepreneurship. I am truly honored to speak to you today regarding an extremely important issue that affects all Americans.

Social Security was originally set up to be a safety net and not as a means of income for the remainder of retired people's lives. This has however, become not the case as a growing number of retired individuals now rely solely on their Social Security benefits.

Currently, 10 percent of the Nation's population is of retirement age, however by 2033, that number is expected to leap to 20 percent. While there will be an increase in the number of individuals paying in by 20 million, the number of individuals drawing from Social Security will rise by 40 million, creating an enormous disparity. Social Security is a trust between the government and the American people, but it is destined to go bankrupt if something isn't done soon to ensure its solvency.

Something needs to be done. This body needs to act, and the time for action is now, which is why I would like to thank all of you for the efforts that you are putting in to make Social Security benefits a reality for my generation, and generations to come. A couple major ideas are being tossed around, buzzwords and acronyms are flying from one side of the aisle to the other, i.e., Trust Fund and Personal Retirement Accounts (PRAs).

The Trust Fund idea gives the government too much control of what is actually the people's money. Social Security is the government's way of ensuring that those who squander away their money in their early years will at least be able to live past the age of 65. That ought to be the limit to where the government needs to step in. The government at that point has ensured that the public has a retirement fund, however now that the public has the retirement fund, it should have many of the attributes that other private sector retirement accounts have. That is where the trust fund goes awry. The Trust Fund is not inheritable. I, as a concerned citizen, must ask, why? If I was diligent enough to save properly and didn't need to use much of the trust fund that was set up for me by the government, why can I not sign it over to my children?

The trust account idea has other faults as well. The trust account is truthfully a portfolio of government lOUs. The question the people have for our government is when the time comes to redeem these lOUs, will the government raise taxes, borrow money, or significantly cut benefits to make ends meet?

The PRAs make more sense, specifically the Archer-Shaw proposal. Many critics of the PRAs feel that it would be unfair for a retiree that retires during an economic downturn to receive significantly reduced benefits than a retiree that retires during economic prosperity. The Archer-Shaw plan incorporates a Cohort Equalization Rule. The rule is simple and ties the size the Social Security check directly to the size of the PRA-annuity. This plan is effective not only because it preserves the fairness to all recipients of Social Security, but keeps the current Social Security system intact.

The fact that PRAs could be inheritable, offer substantially higher returns on the dollar than what Social Security offers today, and the obvious benefits of compound interest over years, just makes it the right route to take.

Coming from a family that has owned a small business since I was a year old in the manufacturing sector, I know the impact that raising taxes has on a small business. Tax increases not only hurt the employee, but can cripple a small business. Often times the average person overlooks the fact that their employer is paying the other half of tax contributions. The PRAs offer an opportunity to leave the contribution amount alone and to allow the people to invest a portion of it in our economy. While economists may disagree on the exact percentage gain over 10 years, there is no disagreement that investments make money over a decade.

In closing, I would like to ask that this Committee not fall into partisan fighting. While it is all too easy to sit behind the party lines and fire endless shots across each other's bows, it accomplishes absolutely nothing, and the people are truly the ones who suffer. Thank you and Godspeed in your new legislative session.

[The prepared statement of Mr. Moore follows:]

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Atlantic University, Boca Raton, Florida

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of the attributes that other private sector retirement accounts have. That is where the Trust Fund goes awry. The trust fund is not inheritable. I as a concerned citizen must ask—why? If I was diligent enough to save properly and didn't need to use much of the Trust Fund that was set up for me by the government, why can I not sign it over to my children.

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In closing I would like to ask this committee to not fall into partisan fighting. While it is all too easy to sit behind the party lines and fire endless shots across each other's bows, it accomplishes nothing and the people are the only ones who suffer.

Thank you and Godspeed in the new legislative session.

Chairman SHAW. Thank you, Mr. Moore. Mr. Winawer?

STATEMENT OF LARRY WINAWER, FLORIDA STATE ORGANIZER, THE ALLIANCE FOR RETIRED AMERICANS

Mr. WINAWER. Thank you Chairman Shaw. Thank you for holding this field hearing on the future of Social Security. I am glad you called this hearing, because young workers, like all Americans, have a big stake in Social Security and its future.

My name is Larry Winawer and I live in West Palm Beach, Florida. I am 35 years old. I am here today representing the Alliance for Retired Americans. The Alliance is a national organization of over 3 million Members that works to create an America that protects the health and economic security of seniors, rewards work, strengthens families, and builds thriving communities. It was launched in January 2001 by a national coalition of labor unions and community-based organizations dedicated to improving the quality of life for retirees and older Americans.

Working for the Alliance, I see older Americans who are able to have comfortable retirements because of Social Security and the guarantees that it brings. My mother, who works for New York State and just recently retired, will soon be one of those people. Social Security is the most important source of income to four out of five retirees. This fact is not expected to change in the future. Pensions and individual retirement savings accounts simply do not

cover enough people or deliver large enough benefits to be able to replace Social Security.

Some quick numbers. Just under half of the private work force has any kind of retirement plan on the job. Only one-in-five private sector workers is covered by a traditional pension plan delivering guaranteed benefits. A little more than half of American families have any kind of retirement account, whether they be 401(k)s, or Individual Retirement Accounts from past or current jobs, and that also includes a family's own savings. If a family is lucky enough to have any accounts, the typical balance is only $29,000. Even if you double that to around $58,000 it really only translates to a monthly income of between $230 and $360 a month, depending on how conservative a person's financial strategy is.

Social Security is the only defined benefit retirement income available to all American workers. Employer-provided defined benefit plans are declining, while defined contribution plans, with no guarantees and which place the entire responsibility for saving and investing on individual workers, are increasing. For example, if a retirement plan is a 401(k), then benefits depend on workers' voluntary contributions to an account and cumulative investment gains and losses. Low-wage workers are less likely to make contributions, even if the employer makes matching contributions, and therefore are unlikely to reach retirement with adequate savings.

As you know, Social Security is not just for retirees. Young people also need the disability and survivor protection that Social Security provides. No one knows who among us will become disabled or suffer a premature death. In fact, today, a 20-year-old faces a 3-in-10 chance of becoming severely disabled, either physically or mentally, and unable to work for some period before retirement. That same worker also faces a roughly one-in-five chance of dying before reaching retirement. Social Security provides intergenerational protections crucial to the basic financial security of the American family, and my generation needs this guaranteed safety net just as badly as the previous generations. Here in Palm Beach County just ask the 17,000 disabled workers or the nearly 340,000 throughout this State who depend on Social Security's disability benefits to support their families. Social Security is strong today but needs to be strengthened for the future. In 2001, President Bush's Social Security Commission attacked the financial soundness of Social Security, charging inaccurately that Social Security would "go broke" by 2016. The Federal government's own actuaries contradicted this charge, and the Social Security Board of Trustees' official estimates now show adequate resources through at least 2042. After 2042, the system will have enough resources to cover approximately 70 percent of promised benefits.

While some have tried to portray Social Security as a program in crisis, which must be dismantled in order to save it, these kinds of characterizations quickly collapse when exposed to the light of day. The long-term costs of the tax cuts enacted and proposed by President Bush are more than three times the size of Social Security's actuarial deficit.

Advocates of Social Security privatization are now selling private accounts as a way to strengthen Social Security in the face of projected shortfalls. Really it's a matter of simple arithmetic: current

benefits are now paid for by current revenues, payroll taxes paid by people now working. If current workers take some of their money out of Social Security and put it into their own accounts, there is less money to pay currently needed benefits.

Redirecting just 2 percentage points of the Social Security payroll tax to carved-out private accounts more than doubles the size of Social Security's long-term shortfall. The benefit cuts required by private account plans will be painful and unfair. Some proposals, such as one endorsed by President Bush's Social Security Commission, have the effect of raising the retirement age, forcing workers to delay retirement to 69 or 70 or even later if they want to collect full benefits. This kind of benefit cut would cause the most pain for American workers who do the hard physical labor that makes our country run.

Other proposals, including two endorsed by this same Commission, rely in part on steep benefit cuts for future disabled workers and the young surviving children of deceased workers to pay for this privatization and make the numbers add up.

Some assume that the Nation will simply divert trillions of dollars away from the rest of the Federal government without specifying from where or take enormous amounts of new Federal debt to pay the high price of individual accounts. It is unrealistic to believe that we can raid the rest of the government by borrowing trillions of dollars to pay for a risky privatization plan.

Social Security benefits do not change with ups and downs in the economy or the stock market. The value of individual accounts invested in private investment markets can vary substantially from year-to-year and the value of a worker's account benefits at retirement can be far different from what the worker expected. Recent experiences have borne this out, as sharp declines in the stock market have forced workers to delay retirement and force some retirees to return to work.

Please don't be fooled. Replacing Social Security's guaranteed benefits with privatized investment accounts will have far reaching effects. Individual accounts undermine Social Security's ability to protect lifetime low-wage earners by cutting back on Social Security's progressive benefit formula. Individual accounts hurt disabled workers and young children of deceased workers. Privatization threatens Social Security's ability to provide lifetime, inflation-adjusted benefits to retirees.

The Social Security system has continued to work for the American people. It has fulfilled its promise to provide a foundation of financial support for the retired, disabled, and survivors of deceased workers. It has kept new benefits up to date with improvements in the standard of living, to protect current benefits against erosion by inflation. It has delivered benefit checks on time, to the right person, to the right address, month after month without fail. It does not need radical changes.

In conclusion, I find it is amazing that Congress would even consider such changes after 3 years of corporate and mutual fund scandals that would have undermined the retirement of millions of seniors if privatization had been in effect. Thank you again for inviting me here.

[The prepared statement of Mr. Winawer follows:]

Statement of Larry Winawer, State Organizer for Florida, Alliance for Retired Americans, Wellington, Florida

Chairman Shaw and Members of the Social Security Subcommittee, thank you for holding this field hearing today on the future of Social Security. I am glad you called this hearing, because young workers, like all Americans, have a big stake in Social Security. My name is Larry Winawer and I live in West Palm Beach, Florida. I am thirty-five years old.

I am here today representing the Alliance for Retired Americans. The Alliance is a national organization of over three million members that works to create an America that protects the health and economic security of seniors, rewards work, strengthens families and builds thriving communities. It was launched in January 2001 by a national coalition of labor unions and community-based organizations dedicated to improving the quality of life for retirees and older Americans.

Working for the Alliance, I see older Americans every day who are able to have comfortable retirements because of Social Security and the guarantees that it brings. My mother works for the State of New York and will soon be one of those people.

Social Security is the most important source of income to four out of five retirees. This fact is not expected to change in the future. Pensions and individual retirement savings accounts simply do not cover enough people or deliver large enough benefits to be able to replace Social Security.

- Just under half (49 percent) of the private workforce has any kind of retirement plan on the job. (U.S. B.L.S.)
- Only one-in-five (20 percent) private sector workers is covered by a traditional pension plan delivering guaranteed benefits. (U.S. B.L.S.)
- Only slighty more than half (52.2 percent) of American families have any kind of retirement account, whether they be 401(k)s, 403(b)s or IRAs from past or current jobs or a family's own savings. (Federal Reserve)
- Among those that do have any accounts, the typical family's total account balances total only $29,000. Even among those approaching or just entering retirement (families with a family head ages 55 to 64), the median account is only $55,000. (Federal Reserve) That $55,000 translates to monthly income of just $230 per month for someone trying to be conservative or $360 per month if you planned on depleting your savings in 20 years.

Social Security is the defined benefit retirement income available to all American workers. Defined benefit plans are declining, while defined contribution plans, with no guarantees and which place the entire responsibility for saving and investing on individual workers, are increasing. For instance, if a retirement plan is a 401(k), then benefits depend on workers' voluntary contributions to an account and cumulative investment gains and losses. Low-wage workers are less likely to make contributions, even if the employer makes matching contributions, and therefore are less likely to reach retirement with adequate savings. Social Security forms the bedrock of our retirement security system.

But Social Security is not just for retirees. Young people also need the disability and survivor protection that Social Security provides. No one knows which members of the population will become disabled or suffer a premature death. Today, a 20-year-old worker faces a 3-in-10 chance of becoming severely disabled, either physically or mentally, and unable to work for some period before retirement. That worker also faces a roughly 1-in-5 chance of dying before reaching retirement.

Social Security provides inter-generational protections crucial to the basic financial security of the American family, and my generation needs this guaranteed safety net as badly as the generations before ours. Just ask the more than 17,830 disabled workers here in Palm Beach County and the nearly 339,448 around the state of Florida who depend on Social Security's disability benefits to support their families. Or ask the more than 13,355 Palm Beach County children of workers who have become disabled, died or retired or the nearly 225,783 children throughout Florida. (SSA)

Social Security is strong today but needs to be strengthened for the future. In 2001, President Bush's Social Security Commission attacked the financial soundness of Social Security, charging inaccurately that Social Security would "go broke" by 2016. The Federal government's own actuaries contradicted that charge, and the Social Security Board of Trustees' official estimates now show adequate resources through at least 2042. After 2042, the system will have enough resources to cover approximately 70 percent of promised benefits.

While some have tried to portray Social Security as a program in crisis, which must be dismantled in order to save it, these kinds of characterizations quickly col-

lapse when exposed to the light of day. Consider that the long-term costs of the tax cuts enacted and proposed by President Bush are more than three times the size of Social Security's actuarial deficit.

Advocates of Social Security privatization are selling private accounts as a way to strengthen Social Security in the face of projected shortfalls. They assert that redirecting money away from Social Security into private investment accounts is a "third way"—a way to address concerns about Social Security but avoid benefit cuts or tax increases.

Just as there is no reason to start believing in free lunches or perpetual motion machines, don't believe that there's such a thing as pain-free privatization. The costs of shifting to a system of private accounts—even partially and with relatively small accounts—are large and unavoidable. It is a matter of simple arithmetic: current benefits are now paid for by current revenues—payroll taxes paid by people now working. If some current workers take some of their money out of Social Security and put it into their own individual accounts, there is less money to pay the benefits going to people now retired or disabled, or the surviving spouses and orphans of deceased workers.

So, redirecting just two percentage points of the Social Security payroll tax to carved-out private accounts more than doubles the size of Social Security's long-term shortfall. The big hole created by private accounts must be paid for by big benefit cuts, tax increases, massive new federal borrowing or huge federal subsidies that will starve the rest of the government.

The benefit cuts required by private account plans can be painful and unfair. Some proposals—such as one endorsed by President Bush's Social Security commission—effectively raise the retirement age, forcing workers to delay retirement to 69, 70 or even later if they want to collect full benefits. This kind of benefit cut would cause the most pain among people who at 10 a.m. on a weekday morning are well into their work day building the houses we live in or lifting patients in and out of wheelchairs at a nursing home; or perhaps some are just heading to bed after having worked the night shift building cars on a factory floor or stocking shelves at the local grocery store. Other proposals—also including two endorsed by President Bush's Social Security commission—rely in part on steep cuts in benefits for future disabled workers and the young surviving children of workers who have died to pay for privatization and make the numbers add up.

Other individual account proposals do not explicitly rely on benefit cuts or tax increases but ultimately raise the same kinds of concerns as pure carve-out plans because they do not identify reliable alternative ways to fund benefits. Some proposals assume that the nation will simply divert trillions of dollars away from the rest of the federal government without specifying from where or take on enormous amounts of new federal debt to pay the high price of individual accounts. It is unrealistic to believe that we can raid the rest of the government by borrowing trillions of dollars to pay for a risky privatization plan.

Beyond the very serious questions about how we pay for private accounts and whose benefits Congress is going to be cut to pay for them, are fundamental concerns about transforming our bedrock of family financial security by replacing Social Security's guaranteed benefits with risky stock-based private accounts. Social Security provides workers and their spouses with guaranteed retirement benefits for life that protect against inflation. Benefits do not change with ups and downs in the economy or the stock market. The value of individual accounts invested in private investment markets can vary substantially from year to year and the value of a worker's account benefits at retirement can be far different from what a worker expected. Recent experiences have borne this out, as sharp declines in the stock market forced workers to delay retirement and some retirees to return to work. Furthermore, the tremendous erosion of traditional pension plans in the work place in favor of do-it-yourself individual accounts make replacing any of Social Security's guaranteed benefits with private accounts even riskier.

Make no mistake, replacing Social Security's guaranteed benefits with privatized investment accounts will have far reaching effects. Individual accounts undermine Social Security's ability to protect lifetime low-wage earners by cutting back on Social Security's progressive benefit formula. Individual accounts hurt disabled workers and young children of deceased workers. Privatization threatens Social Security's ability to provide lifetime, inflation-adjusted benefits to retirees.

The Social Security system has continued to work for the American people. It has promised to provide a foundation of financial support for the retired, disabled, and survivors of deceased workers. It has kept new benefits up to date with improvements in standards of living, to protect current benefits against erosion by inflation. It has delivered benefit checks on time, to the right person, at the right address, month after month without fail. It does not need radical changes.

It is amazing that Congress would even consider such changes after three years of corporate and mutual fund scandals that would have undermined the retirement of millions of seniors if privatization had been in effect.

Thank you for inviting me here.

Chairman SHAW. Mr. Weekes.

STATEMENT OF LEON M. WEEKES, PAST CHAIRMAN, BOARD OF DIRECTORS, MAE VOLEN SENIOR CENTER INC., BOCA RATON, FLORIDA

Mr. WEEKES. Thank you very much, Mr. Chairman for asking me to be here today. I have brought with me Elizabeth Lugo from the Mae Volen Senior Center, which by the way, is located in Boca Raton, about 1 mile south of where we sit here today.

Ms. Lugo is much more qualified than I am to discuss what she sees are the concerns of our seniors and the needs and the shortfalls that may exist in the system as it effects our elderly and more particularly, our frail elderly. I will turn it over to Ms. Lugo, and hopefully, she'll leave me a couple of minutes at the end where I can make a couple of other remarks. Thank you. Ms. Lugo?

Ms. LUGO. Thank you, Chairman. As Mr. Weekes said, I'm currently serving as the chief executive officer of the Mae Volen Senior Center here in Boca, and I have been with the center for over 10 years. The center, for those of you who do not know, serves as a vocal point for seniors and is considered the lead agency for services to seniors in Southern Palm Beach County. The center is a place for socialization and education, and also provides transportation, adult day health care, home delivered and congruent meals, and in-home services such as bathing and cleaning assistance to the elderly.

During my tenure at Mae Volen, I have worked directly with seniors as a case manager. As recently as last week, I have been fielding calls for help from families, friends, adult children, and the seniors themselves. The main reoccurring theme I am hearing about Social Security is that it is not enough. It is described to me by almost every caller as just Social Security and often they go on to explain that Social Security alone means you are barely making it month-to-month with not one penny to spend on anything above keeping the electricity on and basic food supplies in the pantry.

This is a great concern to me, because if the recipients of Social Security are not able to live independently in their own homes and afford the much needed in-home assistance to help them take a bath or prepare a meal, or do a load of laundry, then the beneficiaries of tomorrow will have even more difficulty doing so.

The people who are calling me for help are not the poorest of the poor, but middle income seniors who are not wealthy enough to afford the assistance they need, and pay their rent or mortgage, and buy food and medicine. They are what I often refer to as the gap population. Those seniors not poor enough to be eligible for Medicaid and other public assistance programs, but not wealthy enough to afford the basic in-home care that they need.

From what I understand, until recent years, Social Security recipients received far more than the value of the Social Security

taxes they paid. If these are the people who are calling me today, I can expect to be inundated with more calls from people just like them in the very near future.

Currently we have hundreds of people on waiting lists for services. There is not enough Federal or State funding to serve all who call Mae Volen Senior Center. With benefits being diminished and the age for eligibility increasing, more and more people will be unable to afford the in-home care as they age. This could effect the cost of other entitlement programs such as Medicare and Medicaid that would also place a large strain on the Federal Treasury. I would like to turn it back to Mr. Weekes so he can have a couple of moments.

Mr. WEEKES. Thank you very much, Elizabeth. Presently the benefit for surviving children under the Social Security Act (P.L. 74–271) stops when they reach 18 years of age. In my view this should be extended to 21, or so long as the person is a full-time student at an accredited institution. It makes sense because under the present system many potential college or trade school students must drop out for lack of ability to pay tuition or other related expenses. If the benefit were extended, many of them would be able to continue their education. This would enable them to secure better, higher paying jobs, which in turn would result in more taxes paid to the government. Over the long term, the monies returned in taxes would probably exceed the additional cost of extending the benefits.

I must tell you from personal experience, I have a lady in my office who lost her husband. She has two children, recently graduated from high school and now going to college. They graduated at age 18, their benefits stopped. Now she is faced with the problem of trying to fund their college education. Both of them are bright kids, they are going to college, and it is extremely difficult. I do not know why this is an automatically cut off at age 18. I think that that should be reconsidered.

One other point I would make is that in 2018 when the case flow starts to turn negative and we have to start drawing down the funds that we have in reserve, those funds are not there, as you have already said and others have already said, the government is going to have to go out and find some means to repay the money that they have borrowed, if you will, from the trust fund. That means that they are going to have to find that money and additional revenue somewhere, but it should not be on the backs of the Social Security beneficiaries. That money was paid in good faith, borrowed by the government, and it should be repaid by the government from other sources. Thank you very much, Mr. Chairman.

[The prepared statement of Mr. Weekes follows:]

Statement of Leon M. Weekes, Immediate Past Chairman, Board of Directors, Mae Volen Senior Center, Inc., Delray Beach, Florida; accompanied by Elizabeth Lugo, President and Chief Executive Officer, Mae Volen Senior Center, Inc., Delray Beach, Florida

My name is Leon Weekes and I am speaking to you this morning as a beneficiary of the Social Security System, a businessman, and as past chairman of the Board of Directors of the Mae Volen Senior Center in Boca Raton, Florida. The Center is the primary provider of senior services in SouthPalm Beach County.

What we are seeing at MaeVolenSeniorCenter:

Seniors are concerned that their benefits will be revised and benefits diminished. They are worried that Social Security will not be there for their children and grandchildren. The average age of a senior at MVSC is 79 and, therefore, they have been receiving Social Security benefits for some time now. The main complaint is that it is not enough money to live on and they are on very tight budgets, often having to choose between food and medication, and are not able to live the way they would like to.

At MVSC we get a lot of calls from seniors needing assistance in their homes who are living only on Social Security and who have no other source of income. Most of these individuals have incomes that are too high to qualify for Medicaid or other public assistance benefits, yet don't have enough income to pay for much-needed assistance in their homes to avoid nursing home placement. This "gap" population is continuing to grow with programs for this "gap" population remaining the same and not experiencing any increases to account for the growing senior population. At the same time, programs for those who are eligible for Medicaid and similar public assistance programs are expanding.

I think that MVSC will see more issues arise in the future when new beneficiaries become eligible and if changes are made in the administration of Social Security, seniors will need help in interpreting the changes and how it affects them. If revisions are made, places like MVSC could house information, staff and volunteers specifically trained to assist seniors in navigating the system. It is also important that workers in the workforce who are not seniors and not yet eligible for retired worker benefits, be educated on changes made so that they are prepared and can make necessary adjustments in their lifestyle and make sound financial decisions if given the opportunity to have some control over a personal retirement account.

My personal views:

1. Allow workers to contribute five percentage points of the 12.4 percent Social Security payroll tax to personal investment accounts. The government will guarantee all retirees no less retirement income than what Social Security currently promises them. Because private-market returns are so much higher than what non-invested, purely redistributive Social Security can offer, the accounts would finance substantially higher benefits after a lifetime of investment than what Social Security promises. Most workers would realize an increase in retirement income. This would not endanger the Social Security trust funds or imperil the Federal government's fiscal situation.
2. Identify and implement another source of funding for the system. Payroll taxes have reached the maximum acceptable limits for both employer and employee.
3. Presently, the benefit for surviving children stops when they reach eighteen years of age. This should be extended to twenty-one years so long as the person is a fulltime student at an accredited institution. This makes sense because under the present system many potential college or trade school students must drop out for lack of ability to pay tuition or other related expenses. If the benefit was extended, many of them would be able to continue their education. This would enable them to secure better, higher paying jobs, which in turn would result in more taxes paid to the government. Over the long term the monies returned in taxes would probably exceed the additional cost of extending the benefits.

Chairman SHAW. Thank you very much, Mr. Weekes.

Dr. Harper.

STATEMENT OF JOEL T. HARPER, PROFESSOR, COLLEGE OF BUSINESS, FLORIDA ATLANTIC UNIVERSITY, BOCA RATON, FLORIDA

Dr. HARPER. Thank you, Congressman Shaw. Before I begin my remarks, I would like to state that my opinions do not necessarily reflect views of FAU, of which I am an employee and an Assistant Professor of Finance. They furthermore, do not necessarily represent the opinions of the Association for Investment Management

and Research and the Financial Analysts Society of south Florida, of which I am past-president.

In my opinion, the current structure of Social Security must be reformed. Currently, I see several problems with the Social Security system that need to be addressed quickly. I will limit my brief comments to four areas, and at the end I would like to comment on the plans to reform Social Security that are presently before this Subcommittee.

One of the first problems I see with Social Security is the funding status of Social Security. Corporations, by contrast, are currently held to a much higher standard of funding and financial responsibility with respect to their pension plans and obligations than the Federal government is to Social Security obligations.

Currently, the Social Security system is based on little more than an under-funded pay-as-you-go system. There are not enough funds set aside to meet projected obligations, especially past 2018. In contrast, corporations must project the obligations they have with respect to under funded defined benefit pension plans, set aside funds to meet those obligations, and then insure the plan in case the funds are not sufficient or if the firm goes bankrupt.

For defined contribution plans, the corporation must immediately fund the pension plan once benefits are earned, not when they are due. One of the stories to emerge from the Enron scandal are the numerous employees who lost their retirement due to the bankruptcy of Enron. This was not due to funding, but to the investments made by these plans. The funding of the Social Security system is much more precarious than Enron's ever was.

The second problem I see is the lack of economic capital. One of the side benefits provided by corporate pension plans, defined benefit plans, defined contribution plans, and, by the way, Individual Retirement Accounts, is that the plans must be funded, and the money used to fund these plans is invested in the economy. Pension plans invest in stocks, bonds, real estate, and other investments. This capital is put to productive use and provides sources of funding for expansion of businesses, long-term investment by companies, and, by the way, individuals and small businesses. This source of funding provides a benefit both to businesses that need capital, as well as to the pension plans that invest and earn a fair rate of return.

The Social Security fund does not provide these economic benefits. For the most part, the taxes that are collected from the employer and the employee are not set aside for that particular employee, and are rarely used in the capital markets, but rather used to pay current obligations due to beneficiaries. This loss of productive capital hurts the overall economy and makes investments more expensive for businesses.

The third problem I see with the current Social Security system is a lack of appropriate investment options. As it is now, the actual return of payments into the Social Security system to many, especially of my generation, participants is less than the Treasury bill rate. As Mr. Lockhart pointed out, the actual return could be a negative return for my generation and my children's generation. Participants have no way to change the potential return they earn and are limited to this one option. This one-size-fits-all approach

can cause severe harm to many participants. For example, an employee who works for a municipal or State government and has a defined benefit pension plan will have a fairly safe, constant retirement payout if the employee vests in the plan and continues to work to retirement age. The retirement benefit is fairly low risk. This particular employee could benefit by investing more aggressively in a Social Security framework that allows for equity or other investments. By taking a little additional risk, the retirement benefits would potentially be very large. On the other hand, a small businessowner whose wealth and potential retirement savings are tied up in the business would prefer a risk option that has lower risk and provides more constant return.

Currently, these two individuals are limited in what Social Security offers and cannot benefit from opportunities to match their investment preferences. The last problem I see with Social Security is the deviation of the original purpose of Social Security.

When Social Security was first enacted in the thirties, the purpose was to provide benefits for those who were beyond the normal life expectancy. It wasn't long before additional benefits and entitlements grew as a source of political capital. The net effect of this expansion is that many participants have received, or will receive, additional benefits that they themselves did not pay into the system through payroll taxes. These additional benefits are being provided by a future and relatively shrinking work force. As it stands, the current Social Security Trust Fund will not be able to provide benefits within approximately 30 years. The continuation of Social Security without either reducing benefits, delaying benefits, or additional contributions through tax revenue is not a feasible alternative for the next generation of workers. Finally, I have a few comments on the proposed reforms.

Recently, this Committee has begun the process of major reform of the Social Security system, with the support of the President. Many of the reform plans advocate a partial "privatization" of the Social Security program, mainly through the use of investments in individual accounts. I believe that most Members of this Subcommittee, as we have heard today, would agree that those in the late stages of their careers and close to retirement should be able to rely upon the present Social Security system, and that any reform measures should be targeted to those who, like myself, are in a relatively early part of their career.

I do not support the expansion of benefits proposed under many plans, including the lowering of retirement age to receive full benefits that I have seen proposed. I do support a Social Security system that allows for savings and investment into private accounts. It addresses many of the problems I see with the current system that I've mentioned above. However, I do question the wisdom of setting up a new system of accounts. To me, it makes more sense to utilize the pre-existing Individual Retirement Account and allow or require contributions be made as a percentage of income. This percentage could be the current employee tax rate for Social Security and even allow additional contributions at higher percentages to encourage savings.

Employees who have contributed into the existing system should be allowed the option to withdraw from the system what they have

paid into it, with a reasonable rate of return, for deposits into these accounts. Those who have yet to begin their careers should be required to participate in the new system of individual accounts.

The one main drawback from the system of individual accounts is it does not address the initial problem of Social Security: how do we protect those with low incomes? My opinion is that this should be a separate program under the general revenue and obligation of the government. The program should be limited in scope and size so that it does not become a burden on taxpayers as the current Social Security system is. Thank you for this opportunity to address the Subcommittee. We all have an interest in the decisions this Subcommittee will make as it concerns this issue and I am grateful to have my opinions heard.

[The prepared statement of Dr. Harper follows:]

Statement of Joel T. Harper, Ph.D., Professor, College of Business, Florida Atlantic University, Boca Raton, Florida

Before I begin my remarks, I would like to formally state that the opinions and views expressed here are my own and do not necessarily represent the views and opinions of my employer, Florida Atlantic University, or the Association for Investment Management and Research (AIMR) and the Financial Analysts Society of South Florida (FASSF) of which I am a member and past-president of the FASSF.

In my opinion, the current structure of Social Security must be reformed. Currently, I see several problems with the Social Security system that need to be addressed quickly. I will limit my brief comments to four areas: Funding status of Social Security, the loss or lack of economic capital in the current system, the lack of appropriate investment and risk options for individuals, and the deviation of Social Security from the original mandate to an ever-growing entitlement program. As time permits, I would like to comment on plans to reform Social Security that are presently before this subcommittee.

Funding Status of Social Security

Corporations are currently held to a much higher standard of funding and financial responsibility with respect to their pension plans and obligations than the Federal government is to Social Security obligations. Currently, the Social Security system is based on little more than an underfunded pay-as-you-go system. There are not enough funds set aside to meet projected obligations. In contrast, corporations must project the obligations they have under defined benefit pension plans, set aside funds to meet those obligations, and then insure the plan in case the funds are not sufficient or if the firm goes bankrupt. For defined contribution plans, the corporation must immediately fund the pension plan once benefits are earned, not when they are due. One of the stories to emerge from the Enron scandal are the numerous employees who lost their retirement due to the bankruptcy of Enron. This was not due to funding, but to the investments made by these plans. The funding of the Social Security system is much more precarious than Enron's ever was.

Lack of Economic Capital

One of the side benefits provided by corporate pension plans, whether they are defined benefit or defined contribution, is that the plans must be funded, and the money used to fund these plans is invested in the economy. Pension plans invest in stocks, bonds, real estate, and various other investments. This capital is put to productive use and provides sources of funding for expansion of business and long-term investment by companies. This source of funding provides a benefit both to businesses that need capital as well as to the pension plans that invest and earn a fair rate of return. The Social Security fund does not provide these economic benefits. For the most part, the taxes that are collected from the employer and the employee are not set aside for that particular employee and are rarely used in the capital markets, but rather used to pay current obligations due to beneficiaries. This loss of productive capital hurts the overall economy and makes investment more expensive for businesses.

Lack of Appropriate Investment Options

As it is now, the actual return of payments made into the Social Security system to many, if not most, participants is less than the Treasury Bill rate. Participants

have no way to change the potential return they earn and are limited to this one option. This one-size-fits-all approach can cause severe harm to many participants. For example, an employee who works for a municipal or state government and has a defined benefit pension plan will have a fairly safe, constant retirement payout if the employee vests in the plan and continues to work to retirement age. The retirement benefit is fairly low risk. This particular employee could benefit by investing more aggressively in a Social Security framework that allows equity or other investments. By taking a little additional risk, the retirement benefits would potentially be very large. On the other hand, a small business owner whose wealth and potential retirement savings are tied up in the business would prefer a lower risk option for Social Security investment. Currently, these two individuals are limited in what Social Security offers and cannot benefit from opportunities to match their investment preferences.

Deviation from the Original Purpose of Social Security

When Social Security was first enacted in the 1930's, the purpose was to provide benefits for those who were beyond the normal life expectancy. It wasn't long before additional benefits and entitlements grew as a source of political capital. The net effect of this expansion is that many participants have received or will receive additional benefits that they did not pay into the system through payroll taxes. These additional benefits are being provided by a future and relatively shrinking workforce. As it stands, the current Social Security trust fund will not be able to provide benefits within 30 years. The continuation of Social Security without either reducing benefits, delaying benefits, or additional contributions through tax revenue is not a feasible alternative for the next generation of workers.

Comments on Proposed Reforms

Recently, this committee has begun the process of major reform of the Social Security system, with the support of the President. Many of the reform plans advocate a partial "privatization" of the Social Security program, mainly through the use of investments in individual accounts. I believe that most members of this subcommittee would agree that those in the late stages of their careers and close to retirement should be able to rely upon the present Social Security system and that any reform measures should be targeted to those who, like myself, are in a relatively early part of their career.

I do not support the expansion of benefits proposed under many plans, including the lowering of retirement age to receive full benefits that I have seen proposed. I do support a Social Security system that allows for savings and investment into private accounts. It addresses many of the problems I see with the current system. However, I do question the wisdom of setting up a new system of accounts. To me, it would make sense to utilize the preexisting Individual Retirement Accounts (IRA) and allow (or require) contributions be made as a percentage of income. This percentage could be the current employee tax rate for Social Security and even allow additional contributions at higher percentages to encourage savings. Employees who have contributed into the existing system should be allowed the option to withdraw from the system what they have paid into it with a reasonable rate of return, for deposits into these accounts. Those who have yet to begin their careers should be required to participate in the new system of individual accounts.

The main drawback from the system of individual accounts is it does not address the initial problem Social Security was to address: How do we protect and provide for those with low incomes. My opinion is that this should be a separate program under the general revenue and obligation of the government. The program should be limited in scope and size so that it does not become a burden on taxpayers as the current Social Security system is.

Thank you for this opportunity to address the subcommittee. We all have an interest in the decisions this subcommittee will make as it concerns this issue and I am grateful to have my opinions heard.

Chairman SHAW. Thank you, Dr. Harper. Mr. Winawer, I find some things in your testimony which I, frankly, agree with, which might surprise you. I agree with you that Social Security itself does not need a "radical change." In fact, it is my opinion that it should be left alone and we should add something to it.

Mr. WINAWER. Sure.

Chairman SHAW. On page 4 of your testimony, you point out that current benefits are now paid for by current revenues, payroll taxes paid by people now working. You are absolutely correct, but if you go back on the top of that same page, I think you are losing sight of a problem that we have, and that is that those payments will not be adequate to pay Social Security after, you say 2016. The date has been changed and it is a moving target, it was 2016.

Mr. WINAWER. Sure.

Chairman SHAW. The previous witnesses testified that now it is 2018. So, that is good news. You seem to be falling back on the argument that concerns me most, and that is that people are thinking that the system is good until 2042 when we know, and as been testified here by an abundance of witnesses, that we will not have adequate money coming in as a pay-as-you-go system, and it is a pay-as-you-go-system, after 2018.

So, what I think we have to do is to reconcile this. I think where we possibly can come together is to find a point in time where we say, okay, I agree, Social Security should not be dismantled. Social Security should not undergo any radical change. We do have to look after Mr. Moore and Dr. Harper, and be sure that we create something that is going to mean that the system will be there for them. How do you propose that we pay benefits after 2018?

Mr. WINAWER. Well, again, I am not an actuarial specialist. Currently the rate is capped. We have a tax rate, but it's capped at a certain level of income. You could look at possibly raising that level or adjusting that level to account for new revenues. Again, I am not proposing that I have all the answers. What I am here to do is represent the concerns of my Membership to you as somebody with 24 years of experience in the House of Representatives. Also this segues with our concerns that have recently happened with prescription drugs. Seniors, and the retirees that I deal with, are very leery because they feel that what was promised to them during campaign time about prescription drugs was not delivered.

Going forward with Social Security, they share the same concerns. They felt the effects of privatization and they are really concerned about what will happen to their retirement security if their funds are put into positions where they can be jeopardized.

I am not here to propose to you that I have an alternative solution in its entirety. I certainly would like to sit down with you and have an ongoing debate. What I am here to do, again, is represent the concerns of our membership. We have people who have lived through the Depression, and who have seen a lot of how the world works, and privatization of their accounts. Now, again, as you say, it will not affect them, but they do have life experience and they do have children and grandchildren, and they just do not want them to suffer ill effects of privatization. Certainly looking at the cap as it is now would certainly be one alternative.

Chairman SHAW. Are you paying into a pension plan now?

Mr. WINAWER. Am I paying into a pension plan? Currently, I am not. I have that option, but again I fall into a category of a worker who makes in the $30,000s, and for my bills and everyday living, every dollar that I have coming in is pretty much accounted for as an expense. So, that is why as I look toward my retirement, and I look toward what Social Security is doing for my mother. My

father passed away suddenly of a heart attack 4 years ago, and she really needs Social Security. She really needs the pension that comes from her retirement in New York State. So, it is really a personal concern.

Chairman SHAW. So, the pension that your mother is receiving——

Mr. WINAWER. Yes.

Chairman SHAW. Is that the teacher's pension fund?

Mr. WINAWER. No. It is New York State Department of Labor, sir.

Chairman SHAW. New York State Department of Labor?

Mr. WINAWER. Yes.

Chairman SHAW. What are they invested in?

Mr. WINAWER. I am not really sure of the particulars of her Civil Service Annuity, and that is where they are and what those funds are, but I can obtain that information.

Chairman SHAW. Well, we can check that out ourselves.

Mr. WINAWER. Sure.

Chairman SHAW. My guess is if they are like other State pension funds, they are vested in the private sector.

Mr. WINAWER. Sure.

Chairman SHAW. When we look back, and we take a look back 75 years, and then look forward 75 years, both the Clinton Administration, as well as the Bush Administration have said that we need, and this goes back to Depression years.

Mr. WINAWER. Sure.

Chairman SHAW. It includes the slump that we have had over the last few years. It says that we are much better to invest our money, that you get a better return on the money. Now, you bring up the defined benefit plan.

Mr. WINAWER. Yes.

Chairman SHAW. I think this is important. I have studied a number of these and down in Chile, for instance, they have been very progressive. They had Social Security before we did. You know, in America we think we invented everything. We did not. They had Social Security many years before we did. They have gone to a system, as most of the industrialized world has now, that in some ways involves private sector investment. Their system, however, if you live a long, long time and run out and exhaust all the money in your individual account, that is tough. Or if the day you retire, the actuarial value of that is not sufficient to take care of your needs, that is tough.

What I have done under the plan that I have drawn, and it was referred to, I think Mr. Moore referred to it as the Archer-Shaw plan, and that was my name and Bill Archer, who was a former Chairman of the Committee on Ways and Means. We have it as a defined benefit plan.

Mr. WINAWER. Sure.

Chairman SHAW. However, you can do better if the investments that you have in your individual retirement account are better than the benefits that you get through the Social Security under existing law, that you get the better of the two, and that is a good deal. Mr. Moore is going to like that.

Mr. WINAWER. Sure. It certainly would be nice if there was a cost free, just sum total cost free guarantee, where you would be guaranteed a certain amount, and there would be a correlating downside, where if there were an upside, you would also be entitled to that as well. Again, when you get into the private sector, with all due respect, Floridians really have no further to look than what has happened with Alliance Capital and what has happened with the State pension fund in recent years to really, again, you are dealing with the retirees who at this point in their life have no more income earning potential and just really are forced to examine very carefully about where their money is, what the Federal government does with their money, and what the State does as well. So, I appreciate what you are saying, but I also know that there is no something for nothing, and the money is going to have to come from somewhere.

Chairman SHAW. You are correct there. It comes from savings and investment, as well as paying into the Social Security system. That is what is important. You are going to love my plan. You really are.

Mr. WINAWER. I cannot wait.

Chairman SHAW. I will just see that you get a good copy of it.

Mr. WINAWER. All right.

Chairman SHAW. I will autograph for it if you like.

Mr. WINAWER. Can I send it back with revisions?

Chairman SHAW. Yes. Yes, you may.

Mr. WINAWER. Okay. I was just teasing.

Chairman SHAW. Yes, you may. No, I am not teasing.

Mr. WINAWER. Okay.

Chairman SHAW. I would appreciate it if you would, and I have told everybody that, hey, you come in with a better plan than mine, I will not only have a hearing on it, I will sponsor it and try to move it forward for passage.

Mr. WINAWER. Okay. Well, wonderful.

Chairman SHAW. I think that is important. As I said a few minutes ago, that we have got to take the politics out of Social Security.

Mr. WINAWER. Sure.

Chairman SHAW. Republicans and Democrats both recognize the importance of the Federal pension plan, and I think we all want to see that we not only save it for the younger people, but if we can improve on it, we should.

I might say, too, the labor movement in other countries has been the movement that has actually gone into investment in the private sector. Now there is various ways of doing it, but labor should be out front on this. They should be screaming that, hey, you know these younger guys are going to be in big trouble. Mr. Moore, have you done anything on Social Security and looked into before I asked you to be on this panel?

Mr. MOORE. Yes, sir, I did.

Chairman SHAW. You did? Before I asked you?

Mr. MOORE. Before.

Chairman SHAW. Well, you are unusual. If you turn around, you will see more gray hair than any others in this room, and I am very, very concerned that—your classmates should be outraged—

outraged that the Congress has not moved forward and saved this thing for you.

I had a conversation not long ago with a young reporter, she was with the Boston Globe. She was asking me all kinds of questions, so I figured I could ask her a few. So, I said let me ask you this question: how would you feel if you were being interviewed for a job and you were being told that, by the way, all your working life you are going to contribute to this pension plan but it is not going to be there for you, would you take the job? She said no. I said, well, you've already got it because it is called Social Security, and this is what we have to be concerned about, and that is why I am here on this campus.

I might say that I am disappointed that every seat is not taken with standing room only in the back for the young people. We care. My generation cares about the young people. It is kind of hard to get young people really whipped up on the idea of retiring. That is the furthest thing from their minds. When they come into job interviews, they very seldom ask about the retirement program. It is unusual. It is unusual that you—I am glad to hear that, that you have thought about this and actually gone to the trouble to do some research. Now that is really good. That is great.

Mr. MOORE. It is a shame that my generation——

Chairman SHAW. Pull the microphone over to you, would you?

Mr. MOORE. It is truly a shame that my generation is more apathetic than any other generation I think we have seen in past years. Truthfully, students on this campus were asked to come. The students on this campus have been informed of it. However, you know, and you will see a few in the back I am sure that are part of our College Democrats or College Republicans, and whatnot who are more in tune with politics than anything else. Truthfully, from a small business standpoint, and coming from a family that has had small business since I was a year old, like I said, in the manufacturing sector, I think it hits home to me more than anything. So, that is where my interest came in.

Chairman SHAW. Thank you. When you look at what is going on in Iowa and New Hampshire and all the young people that are actually working in some of those campaigns, you see they are not totally out of the political loop, but they just simply have not been asking the right questions to really look after themselves.

Leon, you brought up an interesting question with regard to payment, extended payments of the kids that are in college. I know that is terribly important. Listening to Frank Brogan talk about his experience. I did not know he went through such a troubled childhood as he outlined to us today. Those disability, I am talking about people in college now, I wish there were more of them in this room. When those benefits dropped off, it was tough, and we should take a look at that. In Washington, believe it or not, we look at the price tag of everything. Whether that is going to be possible or not, we have to look at the revenue and the outflow, but I appreciate your coming in with that comment.

Ms. Lugo, I also understand the difficulty. Again, I go back to Mr. Moore who pointed this out, that Social Security has become the sole source of income for so many of our seniors, even though it was not designed to be that way. We have to recognize the com-

plete dependence that so many of our seniors have on that, and you see that everyday in your work. Did you want to comment further? Leon, you look like you are about to jump up here.

Mr. WEEKES. May I?

Chairman SHAW. Yes, sir. Please do.

Mr. WEEKES. I do not want to unsettle anybody, but as our lifespans grow longer and longer, and if somebody comes up with a cure for cancer in the next 10 or 15 years, you are going to see a quantum leap in life expectancy. All of your actuarial assumptions are going to be thrown into a top hat.

Chairman SHAW. I have got news for you; we will have a cure for cancer in the next 15 years, and I have dedicated myself to it as a cancer survivor. That is going to make my job harder, but I am also going to tell you in 15 years I am not going to be Chairman of this Committee, and I am going to let someone else worry about it.

Mr. WEEKES. Well, it does not bother me, either. Dr. Harper, do you have any comments that you would like to bring up other than, yes, I know you were listening to the testimony of these other witnesses.

Dr. HARPER. I think there are a couple of comments. Michael Moore actually was a student of mine, so the fact that he's attuned to these issues may be a sign of what is being taught in the classroom here, especially when we start teaching the finance class talking about savings for retirement and how much does it take to save for retirement. Actually, if you start very early if you are in your twenties or 25 putting away $100 or $200 a month into an Individual Retirement Account can lead to $4 million in retirement at the end of your work life, at 65. Even if you become disabled before then, depending on the age, it still can lead to a substantial sum of money set aside in your retirement accounts that you can use.

With that said, there are many Americans who do not currently save, such as Mr. Winawer. It is actually a choice, a very difficult choice, but a choice nonetheless not to invest into their future. The fact that Social Security has become the sole source of retirement benefits and retirement savings for many Americans in my opinion is reflective of a lack of education about what retirement is and what it takes to retire in preparation more than anything else

Chairman SHAW. I am going back to you, Ms. Lugo. You mentioned in your comments that so many of the people that you serve are concerned about their retirement benefits under Social Security being cut. Where do they get that idea?

Ms. LUGO. I am not sure exactly where they get that idea, but they are concerned. I am not sure exactly where they get that notion, but they definitely are concerned that their benefits will run out, or will be cut. I think that they see so much discussion about Social Security and the future of it that they're probably thinking, kind of the if you act now scenario, that they will feel the repercussions of some reaction now. I do not know that they have heard the statements that we heard earlier that it will not effect the current retirees and those near retirement. I do not think that that is as much in the media as much as, Social Security is not going to be there, there is going to be major reforms to it. I do not know that

they have that piece of mind or feel secure that the system is going to at least be maintained for them.

I would also like to add that they are concerned about their own children and their grandchildren, and that we are hearing that theme more and more. They realize, as I had mentioned to Mr. Weekes, that our average age is about 79, and so these people have been receiving benefits for several years now. Sometimes they feel secure that at least they're going to get by, but what is going to happen to their children and their grandchildren? So, you see both sides of it. With all the media blitz about Social Security and major reforms and benefits being decreased in the future, I think they may be concerned that that will effect them.

Chairman SHAW. Would you bring back this message to them from me? Tell them that you just had a long talk with the Chairman of the Subcommittee on Social Security of the U.S. Congress and he said that over his dead body were they going to interfere with their benefits, and that we are dedicating ourselves to looking after their kids and grandkids.

Ms. LUGO. Absolutely. I would be happy to.

Chairman SHAW. That is good. Thank you.

Ms. LUGO. Thank you.

Chairman SHAW. Thanks to all of you for being with us, and I thank, too, the people that have taken time out of their day to come and listen to this important hearing. I understand there were some people that had questions. We cannot, under congressional hearings, take questions from the audience. If anybody does have any questions, please feel free to contact me, write to me. I will be glad to answer any questions you might have in writing.

Also, if anybody has any curiosity as to the Social Security plan that I keep referring to as mine, I will not only supply Mr. Winawer with a copy, I will supply anybody. It is also on my website if anybody wants to bring it up. Oh, excuse me. I have been told that the plan is on the table in the back. So, anyone who wants to pick up a copy of it, there is no mystery here. It is something that I think is vitally important, and I would welcome all of your comments with regard to the plan. Thank you very much. Hearing is adjourned.

[Whereupon, at 11:45 a.m., the hearing was adjourned.]

[Submissions for the record follow:]

Statement of Audrey Mullinix, Atlantic Auto Glass, Lake Park, Florida

As a small business owner, I face many challenges on a daily basis. Competing with larger companies, managing employees, and keeping customer satisfaction at a high level are but a few. However, the most difficult challenges are usually financial. Keeping a constant eye on the bottom line, while still offering health insurance, a retirement plan and other employee benefits can be exhausting. It is a burden for small companies to match social security taxes each month. It affects how much we can pay our employees, and what other benefits we can offer. It is necessary for our company to offer similar benefits as the large corporations in order to find quality personnel. Raising the social security tax would hurt many small businesses. The reality is, whatever we have to pay in taxes is not going towards growing our company so that we could have more employees.

I also find that the majority of our employees feel that they will never receive any benefits from social security. Most of them feel that they will have to save for retirement on their own. They have also stated that it will be necessary to pay off any debts before retirement age so that they can utilize their savings and investments for living expenses.

I do think that the government should invest our social security trust funds in other ways. Yes, Treasuries are certainly the most conservative investment, but not the most lucrative. Perhaps it would be possible to invest in balanced mutual funds? It seems to me that most major corporations in the United States do just that with their employee's pension and retirement plans. Why should social security be different? It would certainly help to reduce the shortfalls that are going to occur if we do nothing.

I know that there are no easy answers to the problems we face with the future of social security. I do believe that we could make the system more efficient, and more beneficial. I do not think that raising taxes is the answer. More likely, a combination of raising the retirement age and investing the surplus funds in higher yielding investments will go a long way toward solving our problems. Americans are living longer lives. We have to prepare for the future now.

Statement of Dennis L. Bogan, Mason, Ohio

For the past 30 years I have worked 2–3 jobs to provide the type of lifestyle I thought my family deserved. With this I have no regrets, now that my family has started families of their own it was my hope that all of my hard work would be rewarded when I decided to retire.

For 30 years I have paid the maximum amount into the Social Security System. I have also paid into SERS for 30 years, I am currently 57 years old and next year will retire from the Mason Local School System where I have driven a bus for 30 years. My monthly retirement pension will be around $900.00 pre tax dollars. I have paid the maximum into Social Security for over 30 years, my estimated benefits when I reach 65 would be $2100.00 dollars and with the current offset legislation that is in place 40% of my Social Security benefits I will not receive.

It seems to me that if I make that sacrifice to work 2–3 jobs, with the idea that when I retire I will reap the benefits of my labor that your current offset program is truly not the American Way. I earned both of the benefits of which I am entitled, as did many other people who are involved in this same situation. The problem is that the government has an open purse; they can go to Social Security for money for the General Fund, for what? Not for the benefit of **HARD WORKING AMERICANS!!!**

Your Support Would is Greatly Appreciated in Repealing the Offset Tax Penalty.

Thank you.

Statement of David R. Bryant, LaGrange, Illinois

SOCIAL SECURITY DEFINITION OF DISABILITY

In October of 2003, the Social Security Advisory Board issued a policy paper calling into question the **current statutory definition of "disability"** as inconsistent with a national goal of supporting maximum self sufficiency as reflected in the Americans with Disabilities Act. This followed the January 2001 Report raising the same issue.

After a review of the legislative and administrative background of the two disability programs operated by the Social Security Administration, the Report highlights the contradictions and inherent conflicts built into the program. Treating applicants as individuals v. standards of assessment as an "average man"; requiring vocational rehabilitation attempts way too late in the process; lack of funds and qualified personnel to comply with Congressional mandates; a hodgepodge of different federal, state and private programs involved with people alleging a disability; does a medical problem prevent any work?

The Report emphasizes Vocational Rehabilitation as a viable option to restoring the disabled into the workforce. A helpful list of Work Incentives (p.9) and Disincentives (p.14) is set against an analysis of the variety of programs initiated by public and private sector efforts to get people back to work. In almost every case, these efforts have proven cost-benefit ineffective. Use of a personal case manager assigned early on seems the best current approach, yet untested due to lack of trained personnel and funding.

Under the current definition, SSA has failed to be proactive in identifying current medical criteria (Listings) for a presumptively disabling condition; in identifying jobs that exist in the national economy (DOT); in identifying the interrelationship of vo-

cational factors such as age, education, and past work experiences. As suggested, definitions made in the 50s may not be workable 50 years later (p.18).

The Report tries to address the reality of the workplace and health issues. Loss of an industrial base of well paying skilled jobs to a global economy; an aging work force more susceptible to disabling illnesses; identification of new disabling conditions, such as AIDS, SARS, PTSD, RSD, etc.; downsizing and outsourcing of jobs held by the working wounded; preconditioning of Union LTD benefits on receipt of DIB; reduction of medical benefits in the private sector; early v. later retirement trends; workers compensation benefits as related to DIB and Medicare (MSP); Veterans and other public sector benefits. In particular, the Report makes the point that motivation to work or return to work is lacking from the current disability process (p.20).

The Advisory Board admits that additional studies about the issues raised in a Vocational context are needed.

Should disability be an all or nothing affair? Or should the VA and WC models of partial, temporary, permanent, total, ("reflects the degree of impairment" p. 21). Would those with remedial impairments of temporary or % disabilities get priority vocational treatment compared to those with permanent/total (and older?) (and less educated?) disability recipients? Targeted services based on cost/benefits analysis. Who should provide these services? SSA? DoL? States? Private sector?

The 6 optional considerations raised for Congress include:

1. Pay based on medical criteria alone
2. Pay a sliding scale of benefits as disabled person continues a tenth month of work. For every $2 or $3 earned, a reduction of DIB by $1
3. Divorcing Medicaid and Medicare from the cash benefits precondition; maybe allow certain categories of health problems to buy into medical coverage even if employed/working.
4. Bifurcating DIB into a permanent program and a temporary program. The temps will go through a different system oriented to rehabilitation and the case management model.
5. Changing the all or nothing disability assessment to a percentage of disability based on specific medical criteria. Probably the AMA Handbook. . . .
6. Change the CDR criteria from "medical improvement" and "becoming able to work" to one of failure to seek or accept employment (Unemployment Compensation)

The Board made a finding of widespread dissatisfaction with the present system(p.27) without any documentation. This Report is not the definitive word and more work, consultations, forum discussions are intended.

COMMENT

This report skirts the issue of making a concrete proposal by referring to European models and highlighting a poor performance record by SSA of getting people back to work. Until Congress has the guts to buck the Veterans lobby and create an offset between DIB and Veterans disability benefits as it does to Federal and State Public Disability Benefits, there is little likelihood of major reform of the Disability process. If you wanted reform, contract out the disability decision to a private insurance company such as UNUM or MetLife, much like Medicare contracts out to Blue-Cross, Blue Shield.

The present system would work if the Feds took over the States DDS and used competent doctors, including APs, to decide if a bad illness prevented someone from working at their own job. The 3 year mandated review should be based on "inability to work at any job" much like the private disability insurance companies and unions have adopted. During the 3 years, SSA should make the case manager vocational options available in order to give motivated individuals a chance to go to school, look for other work, get medical care, coaching, vocational retraining, whatever. In other words, make the system a little friendlier at the front end with opportunities to a claimant for rehab.

Radical suggestion: Put a SSA CR in each post office for a regular time and date (Wednesday from 10:00 until 3:00) to handle claims, issues, problems, outreach,

In smaller communities, combine the SSA and Post Office since the internet, Fed-X, UPS, and other services seem to be cutting into the Post Office business. Check with AFSME and the Federal Unions on this one.

Humble, Texas 77345
January 23, 2004

Congressman E. Clay Shaw, Jr.
Chairman, Subcommittee on Social Security
Committee on Ways and Means
U.S. House of Representatives
Washington, D.C. 20515–6100

Dear Chairman Shaw:

Thank you for giving me this opportunity to write to you.

Social Security should not be discussed as an isolated issue. Many other issues have bearing on the future of Social Security, and I will touch upon a few of them in the course of my comments to follow.

When planning for our retirement, my husband and I were not aware that our Social Security benefits would be reduced or offset by any pensions earned through employment. In fact only recently did we understand that if my husband died, I would have to choose between receiving his Social Security benefits or my own; that I could not receive both, even though we earned those benefits. This means that **although we were responsible in working and planning to provide for ourselves and not be a burden to others, our goals, nevertheless, will not be achieved as expected because we now understand we will not receive all the benefits we should be due.** This should NOT be the law, nor should it be the policy of any Administration.

How is it fair to punish any American couple, or individual, who has worked hard to be independent and as self-sufficient as possible? **It is folly, not to mention immoral, to *force* people into lack or dependency of any kind. Why push Americans away from a program they have paid into and *earned*, and toward other programs designed to support or supplement those who cannot provide for themselves?** For the government to reduce earned benefits reduces our ability to care and provide for ourselves, and often others as well. **Offsets to Social Security benefits simply will create more citizens who need assistance or will not be able to take care of themselves as planned.** This is NOT what America needs.

Young people should be able to put half of their Social Security withholding in qualified retirement plans. As you well know, the return to a recipient on the actual number of dollars contributed is miniscule. **Even passbook savings exceeds the fund management skills of those overseeing the Social Security System.** Social Security funds have not been managed to the benefit of those who have paid into it for a lifetime.

Social Security needs to be changed from an insurance program to a savings and investment program, perhaps achieved in phases.

I think it should be pointed out to young people (and all elected officials) that several decades of abortion on demand and a lack of family-forming values have reduced the number of children who are born, grow up, become educated, hold jobs and consequently pay taxes into many government programs, including the various Social Security programs, Medicare and Medicaid. It is right to promote marriage for young men and women and encourage the formation of families. These islands of stability are the foundation on which a strong nation rests. **It is easier for a family to assist in the care of an elderly or ailing relative, for instance, that it is for a lone individual to assist in the care of that same person. Individuals who find themselves alone are more likely to require government assistance of some kind, and more of it.**

Not too many years ago I began noticing **the rhetoric of those who say that Americans who are growing older are " the problem."** You may recall Governor Lamb of Colorado stating publicly and rather boldly that "old people have a duty to die and get out of the way." He embarrassed his political party. A news media then sympathetic to arguments against "overpopulation" quickly dropped the story. Governor Lamb and his comments faded away. I was a much younger person when this news story broke but I never forgot those words. They shocked me, frightened me and caused me to watch carefully what would happen to "older Americans," knowing that one day I would be one. Today we have a "death" culture promoting assisted suicide for the depressed and the "right to die" for people who just might want to live. Government policy which acts to accelerate the decline of the elderly and infirm is abominable. This, of course, can be done by undermining their financial security and their ability to provide for themselves from monies that should be theirs.

We have great pressure on us today to increase legal immigration because of decades of abortion and the the failure of the previous century's social experiments. We need more people to work and pay taxes in America. Congress should promote non-destabilizing immigration at this tense time in our history. Ideally, immigration should be open to all peoples who love freedom and realize the choices they make within the law may not be the choices someone else makes within the law; that we decide our governments through discussion and voting, not through violence or the encouragement of violence, or the hateful disparagement of others. Legal immigration of skilled individuals will aid the Social Security System.

Also, we need better controls over illegal immigration, especially because "illegals" who bear children in the U.S often apply for various kinds of benefits for their "legal" children, thus adding to the tax payer's financial burden even as they fail to contribute in taxes paid from legal work. Deporting the parents becomes virtually impossible because it is "unfair" to the American-born children of such "illegals." We do not need these kinds of conundrums. These are human riddles never solved to satisfaction.

I believe President Bush's recent immigration proposal will help in this area and also should result in legal workers paying taxes that benefit the Social Security System.

Please consider the interplay of these issues when formulating changes to the Social Security System. Thank you for your time and consideration.

Sincerely,

Nancy Teague Cuddeback

Statement of Peter J. H. Walker, International Leisure Retirements, Inc., Las Vegas, Nevada

Mr. Chairman and Members of the Subcommittee:

My name is PETER J. H. WALKER, previously known (prior to having legally changed my name) as PETER J. H. PROHASKA. I hope that you, Mr. Chairman, remember me by that previous name, which was my legal name in 1968 through the 70's, when I lived in Fort Lauderdale. You, Mr. Chairman, and I, have been both members of the same Young Republicans Club, and were close acquaintances for several years. You may also recall that I was one of your campaign workers when you ran for your first elected office, as a candidate for one of the seats on the Fort Lauderdale City Commission. We were both young at that time, but now we are both older and wiser. I am 72 years old and retired. You are still serving our Country, and I hope that you will continue to do so for many more years to come.

I was not in the position to offer oral testimony at the field hearing, however, should I have testified orally, I would have testified as follows:

WRITTEN TESTIMONY:

Mr. Chairman and Distinguished Members of the Subcommittee: There is good news and there is bad news!

***The good news* is that Social Security CAN be saved for generations to come, without increasing the payroll taxes, and not only without reducing benefits, but actually enhancing them! The Trust Fund CAN become solvent and may even be able to produce a surplus, and there could be no need to cash-in the Government Obligations, thus putting added pressure on the Treasury!**

The bad news is that to accomplish this "more of the same" will NOT do! BOTH the System and how it is administered, must be revised! The present, dinosaur-like, Social Security Administration must be reorganized and streamlined. Social Security must adopt to the 21st century.

In my testimony that follows I am offering for this Honorable Subcommittee's consideration some very concrete steps that can, and should, be taken as soon as possible, to accomplish this. Space is being limited here, I will not be able to discuss all the details. However, I am available at any time and at your pleasure, both to answer any questions, and to help to actually implement what I am suggesting. *What is more, I am already practicing for years now of what I preach, thus the following is a proven method, much more than just an idea!*

REFLECTING ON THE SAD PRESENT SITUATION*:*

It is eminently clear that Social Security is in dire financial straits already, and he situation is getting worse. The officially recognized reasons why this is happening are well expressed in the Advisory of this Hearing: *"Demographics largely drive the program's financing problem. Families are having fewer children and advances in medicine are enabling people to live longer. As a result, there will be fewer workers supporting each retiree in the future."* **However, the REAL reason is that the SYSTEM of Social Security, and the Ways and Means of how Social Security is ADMINISTERED today by the SOCIAL SECURITY ADMINISTRATION, are BOTH OUTDATED DINOSAURS THAT SEEM TO BE UNABLE TO ADOPT TO THE CHANGING CIRCUMSTANCES, therefore they are heading the way of the dinosaurs: Extinction!**

In this written testimony I wish to show that by reforming, *and only by reforming,* BOTH the SYSTEM, AND THE SOCIAL SECURITY ADMINISTRATION, Social Security CAN remain strong and healthy, CAN remain alive and functional, and CAN survive for the benefit and enjoyment of many generations to come!

The Advisory also observes that even today about TEN PERCENT of Senior Citizens live below the poverty level. While this may represent a *statistical* improvement from the 1959 levels when one-third of Seniors lived below the poverty level, one must point out that the STATISTICAL improvement may not necessarily represent much of an *actual NUMERICAL* improvement, due to the increase of the numbers of Senior Citizens during the same period of time: 10% of today's number of Seniors may even be a LARGER NUMBER than 33% of the Seniors who lived in 1959! Also, even if there is an actual numerical improvement, one must consider the sad fact that such an improvement may not at all be due to an improved Social Security System, but because the System is so bad that many Senior Citizens are forced to work under cruel conditions in menial jobs and for minimum wages, just to be able to put food on the table!

I ask you, Mr. Chairman and all the members of this Subcommittee, to just visit any WALMART store and look around! See who the majority of the workers are! Especially during the middle of the night when the shelves are restocked and the store is being cleaned! When these WORKING SENIORS get sick, unless they get sick enough that their HMO paid physician orders them to be hospitalized, many of them may also go hungry! They are hired by WALMART, Mc Donald's, Burger King, and others similar, as "part time workers" and as such are not provided with any fringe benefits, let alone paid sick leave! A common cold can spell disaster for them! Yet Social Security, which officially admits that it provides less than 40% of the income needed by a retiree just to stay alive (source: the website, Social Security Online) being financially overburdened already, cannot provide any additional safeguard against such a disasters. And disasters like that most probably are occurring every day!

Furthermore, while the statistical trend shows movement in the right direction, the fact that at least some Senior Citizens of the World's richest Country (10% is still amounts to millions!) still live below the poverty line, is not something for the World's Richest Nation to be proud of! Especially when this situation could be helped, *without the need to further overburden the financially stressed system*, by simply adopting some new ideas! Those ideas will be presented herein below for your kind consideration. *I trust that they should serve at least as a catalyst for further new thinking, though they are tried and are actually practiced by many American Retirees, including myself.* Please consider these facts:

For the last three years I live in dignity and in relative comfort, spending ONLY my Social Security income of little more than $600 per month. Thus I am living on my Social Security income alone! *Unfortunately, the dinosaur of the present Social Security System, and the even worst dinosaur of the present Social Security Administration, actually PENALIZE me and my fellow Americans similarly situated, for living in relative comfort and dignity, instead of living under a bridge, working "part time" in a WALMART or Mc Donald's, while barely being able to afford to by even cat food and dog food to eat*! Yet, if I as an INDIVIDUAL can do this DESPITE the obstacles thrown in the way by the present Social Security System and by the present bureaucratic, outdated, obstructionist, and often stupidly acting Social Security Administration, just think what a reformed System and a reorganized, fit for the 21st century, Social Security Administration COULD do, and for how much less money per person!

In addition to the above, please consider that the burden of the present working generation who's payroll taxes provide the funds that pay the retirement benefits of the currently retired generation, is already much too high. Mr. Chairman, and the older members of this Subcommittee, I am sure that you remember the time

when by early May (or sooner) of each year your take-home pay has increased because your yearly Social Security Tax withholding has been already satisfied. Most of the current generation of workers did not ever experience such a luxury! One dollar out of every eight dollars earned is already an overwhelming burden on working Americans. Yet the money collected is still not enough to assure that those who are paying it will ever benefit from it! This Hearing is the absolute proof that continuing doing business as usual will no longer do. It is time for new ideas!

Under conventional thinking any housewife knows that there are only two possible ways to balance the household budget: Either increase the available funds, or decrease the expenses. This conventional, straight forward thinking holds that there is no third alternative. Yet in the case of Social Security, neither decreasing the amount of benefits, nor increasing the amount of taxes represents an acceptable practical solution. So if the conventional straight forward thinking does not provide for a third alternative, one must abandon it, and apply "lateral thinking" to solve the problem. We commonly refer to this sort of thinking as "thinking out of the box." *It is time to think out of the box to save Social Security*!

In the following I wish to provide this Honorable Subcommittee with an idea that is based on this kind of thinking. In fact, it is much more than just an idea: As it will be seen, it is tried and proven method! I myself, for more than 3 years now, personally live this way in comfort and dignity, spending only $600.00 per month,[1] in conditions that should be the envy of every one of my fellow Senior Citizens at every WALMART store, especially through out of the American "snow belt"! And I am not alone: many thousands of Americans have also discovered this "secret" and are already living in comfort on a small income, though the present Social Security and Medicare system *actually penalizes* us for doing so! **If you are willing to overhaul the system to eliminate this penalty, Social Security can start spending less and its beneficiaries can start receiving more, almost immediately!**

Actually, I should not need to take too much more of this Honorable Subcommittee's time: My website on the Internet, http://retirecheap.net, tells almost all to anyone who wants to put two and two together. It tells ALMOST all, but there is still some more. Therefore, in the following I am going to summarize the idea, explain its present difficulties, and suggest some solutions to each of them. *However, before I do this, I also need to point out that while it appears that my website is the site of a commercial establishment, the program it covers, for all practical purposes, is a not for profit program*. So please, do not misunderstand this written testimony: It is NOT intended to serve as a commercial for private gain. You are not only welcome, but are actually encouraged to replace my under financed feeble private effort with a well funded Government Program! With one that will actually save millions of dollars for the Social Security Trust Fund every month, while providing a way for all American Retirees, no matter how poor, to live in comfort and dignity! Please, put me out of business! And the sooner the better! My expert advice and services are hereby offered to you and to the Social Security Administration, in the hope that it may help to speed things up.

Since early November, 2000, I am retired and domiciled here in the Philippines. Right away you PENALIZED ME for not living a pauper's life in Las Vegas, Nevada, my last place of domicile in the United States, by taking my Medicare coverage away. The Social Security Administration is penalizing me by repeatedly failing to make the monthly direct deposit of my little more than $600 per month Social Security benefit, which is my source of income. Unfortunately, the top. *rules making* level of the Social Security Administration seems to contain not only faceless bureaucrats, but also those faceless bureaucrats appear to be both heartless and brainless too! While these are strong words, they represent the facts as they are!

I, like many other American Seniors, live from month to month, relying on the Social Security Administration to do its duty as it supposed to. But these faceless, heartless, and apparently brainless, bureaucrats created rules, and exclusively use methods, that belong to the 19th Century! This is the direct cause of the system failures that time to time knock the food from my table and threaten to tear the roof from over my head! I am not alone: there is a whole list of us, similarly situated, just here in the Philippines! Yet how can we fight some faceless bureaucrats who are apparently just following the rules established by their incompetent dinosaur top leadership, which top leadership makes and enforces regulations, and exclusively utilizes methods, that belong to the 19th Century! The fact that these atrocities are happening repeatedly is not the fault of the Social Security Administration's rank and file employees, or its middle level management, but it is the fault of their top leadership which is unable, and unwilling, to adopt to the 21st Century!

[1] If needed, documentary evidence is available to prove this statement beyond a shadow of a doubt.

The root cause of the problems is the top leadership of the Social Security Administration which creates rules, forms, and unreasonable bureaucratic ways that PENALIZE American Social Security Beneficiaries who domicile outside of the United States!

The SSA steadfastly refuses to make available to us, beneficiaries who domicile outside the United States, the means to use the Internet for reporting our address changes, etc. *Yet it is us who need it the most, due to the unreliability of postal services in many foreign countries*. Unfortunately this Hearing was not aimed to deal with the inadequacies of the Social Security Administration, so I should not dwell further on this subject. **However, it is my opinion that if Social Security is to have a future, the archaic ways of how it is being administered currently by the Social Security Administration must be overhauled: The SSA must be forced to join the 21st century!** In my opinion replacing the top leaders of the SSA with dynamic young managers would probably be a good first step toward building a brighter future for Social Security! I realize that Congress cannot do this alone, but I believe that Congress can, and should, demand that the Administration do it.

THE IDEA OF HOW TO SAVE MILLIONS, AND LATER BILLIONS, OF DOLLARS, WHILE DELIVERING BETTER AND MORE SERVICES, IS SIMPLE:

IN THEORETICAL TERMS:

Fact: **United States Dollars buy more at most any other place on Earth than what they can buy in the United States.**

Conclusion: **Spend less U.S. Dollars, by spending them *outside* the United States, thus to buy more with them.** As it will be shown later herein, this will NOT export jobs; on the contrary, it will CREATE JOB OPENINGS for currently unemployed Americans!

What I am suggesting in the following is a VOLUNTARY program that would allow American Citizen Social Security beneficiaries to retire abroad, under a SSA sponsored and supervised program that would both improve their lifestyles, *AND save considerable amounts of money for the Trust Fund*!

The logical question is: Where is that "outside the United States"? The answer is: Any place where the U.S. Dollar has a high value, where Americans are welcomed *by the population at large* and, therefore are safe, and where they are not forced to learn a foreign language because there are enough natives who speak English. In addition, where American lifestyle, including comfort, health care, hygiene, safety and security, etc. are all available. I (and about 167,000 of my fellow American Citizens[2]) selected the Philippines. This Country meets all of the above criteria, and, in addition, its climate is very similar to the climate of South Florida, the place of dreams for most American Seniors.

IN PRACTICAL TERMS:

Way back, in March of 1985, I suggested to then Philippine President Marcos to create a way for Americans to retire to the Philippines. The Philippines then, as it is now, was in dire need to EARN hard foreign currency. So President Marcos has announced on July 4 of the same year the establishment of the "Philippine Retirement Park System." Unfortunately, he was greedy and tied the Special Retiree Resident Visa to the requirement to deposit in a Philippine bank (approved for this purpose by him) $50,000.00. Of course, the American who has $50,000 cash does not need to retire to the Philippines. Also, the American who is willing to deposit $50,000 into an uninsured account in a Philippine Bank, may need to have his or her head examined, unless there is some very special reason why he or she wants to get such a limited scope resident visa. Consequently, there were, and there are still, just a very few Americans who took "advantage" of this offer.

During the ensuing years, however, the Philippine Retirement Park Authority became the Philippine Retirement Authority, and now it is called the Philippine Leisure and Retirement Authority. Also, at the time when British rule was about to end there, scared Hong Kong Chinese businessmen discovered that a U.S. Dollar deposit can get them a Special Resident Visa in the Philippines. To accommodate them the "retirement age" requirement was lowered to 35 years old, but the deposit required was raised to U.S. $75,000. Later some "businessman" from mainland China have also discovered this special visa for $75,000, and as the result as of today more than 60% of the about 1,600 such visa holders are Chinese. There are only a few Americans.

[2] Source: U.S. Embassy Manila, American Citizen Services section.

It should be noted, however, that despite its name, "Authority," the Philippine Leisure and Retirement Authority is NOT a government agency, but a CORPORATION that is owned by the Philippine Government. In reality it has no actual authority on its own, but it must rely on the various Government Agencies if it needs some time to time. It is a CORPORATION who's mandate is to ". . . promote the Philippines as a retirement haven. . . ."

Because of special interests the Philippine Leisure and Retirement Authority is not willing to accommodate those true retirees who would only want to enjoy the good life here that a small amount of Dollars can provide. Therefore, the absolute grand majority of Americans who domicile in the Philippines (such as I) are utilizing other visas. Many of them simply keep extending their visitors visas.

Yet there are members of the Philippine Government who would be willing to create the necessary visa for a program that would bring American retirees to live at safe, secure, and comfortable resorts in the Philippines. Therefore, such a Program could be easily created by the following steps:

1. Negotiate a Government to Government Memorandum of Agreement that allows American Retirees (even those who require assisted living) to live at improved, South Florida like resorts, in the Philippines year-round.
2. Contract with a private American corporation to select, accredit and SUPERVISE the utilization of existing, and eventually even to help to develop new, resorts in the Philippines to accommodate American Retirees.[3] This private contractor can also negotiate with selected health care facilities, etc., to provide service under Medicare and private insurance for the American Retirees. (I suggest to start with INTERNATIONAL LEISURE RETIREMENTS, INC. [ILRI], a seasoned and experienced Nevada Corporation, for a pilot program. I am the President of this Corporation, but the Corporation is not doing any business in the present, due to the lack of available visa for American Retirees who do NOT have $50,000 to deposit.)
3. Create a Program under which American Citizen Seniors could *voluntarily sign up* and which would provide for them a comfortable room (with daily room attendant service), three healthy, wholesome, nutritious, and tasty buffet style meals every day. All paid for by the Social Security Administration *at wholesale prices.* In addition, the program would also provide the participants with some amount of free spending money each month, to spend as they like, on "luxuries" they can only dream of having under their present circumstances.
4. Promote the Program amongst needy American Retirees.
5. All of the above can easily, and almost immediately done, a PILOT PROGRAM can be started, by utilizing of what ILRI already has in place, and is available for the asking, at no, or very little cost to the Government.

THE ECONOMY OF THIS:

To illustrate the savings than can easily be derived, let us use an example of a person who has a monthly Social Security benefit of only about $850.00. This person either works at some menial job as we discussed above,[4] or is homeless. (In Bullhead City, Arizona, one can visit such homeless Social Security beneficiaries, who live in the desert or on the banks of the Colorado River. They are not drunkards or drug addicts, just poor and homeless. Once a month, when the Social Security Check arrives, two of them get together and rent a cheap hotel room in one of the Laughlin, Nevada hotel/casinos, across the River. For a night or two they sleep in a bed, and 10 to 15 others will sneak in during the day to take a shower.)

So the CURRENT COST of this American Retiree to the Trust Fund is $850 per month. If this person would sign up for the Government sponsored plan I am proposing, the SSA would pay to the foreign Resort only about $350 to $375 per month. In addition this person would receive $100 to $150 per month free spending money. He would have a comfortable, air conditioned room with TV and daily room attendant service, his weekly laundry picked up, washed, dried, and delivered to his room folded, and he would have access to three wholesome, nutritious, and tasty meals every day. He could spend some of his money to play golf, go fishing, or do some shopping. He could also afford to see a dentist when he needs one, and Medicare

[3] For security reason there should NOT be *exclusively* American resorts. All resorts utilzied should also accommodate Filipinos. We made a study of this and can provide the provide the expertise needed to assure safety, security, hygiene, and satisfication for the American Retirees at each of the selected resorts.

[4] Each time a senior vacates a job, he or she will need to be replaced by a younger person, someone who is currently jobless. Under my suggested plan the Senior is better off, the Trust Fund saves money, and a job opening for a younger person has been created. All those benefits just by "thinking out of the box"!

"A" would take care of his hospital bill if he needs that. He could join an HMO cheaply for all his other health care needs and would still have discretionary spending funds left to provide himself with "luxuries" he cannot even dream of today!

All that, while the Trust Fund would save at least $325 on him per month! And, on the top of it, MEDICARE would also save considerable money, because the cost of health care is a lot less here in the Philippines than in the United States. (There are several medical facilities available that are on par with most American hospitals, but even the best is a lot less costly. Again, contracts at "wholesale prices" could be negotiated.) The monthly amounts saved on others who may receive supplemental benefits due to health, etc. reasons, could be even much higher, while their lifestyles would also be considerably improved.

In time the Philippines could easily accommodate a million or more American Retirees. Saving just $325 per month on each, the Trust Fund would save at least $350,000,000 per month! What can be done in the Philippines could also be done elsewhere too. The Trust Fund could save billions of dollars each year, provide a better way of life to even the poorest American Social Security beneficiary, and open up the millions of jobs that are now occupied by poor seniors! Actually, not only that the Trust Fund could become solvent again in time, but it is most likely that it could, in time, start generating a surplus again! A REAL WIN-WIN SITUATION FOR ALL CONCERNED!

But what about the safety and security situation? Yes, safety and security are of major concern. HOWEVER the FACT IS that despite the Advisories and Warnings put out by the State Department, the Philippines IS generally safe for Americans: The vast majority of Filipinos LIKE Americans! That includes the NPA (New Peoples Army) whom our Government has declared a "terrorist organization." The NPA is Asia's longest existing armed revolutionary organization, but there is no proof of any kind that it ever hurt any American in any way. I, personally, have traveled at NPA controlled areas many times, have encountered the NPA on several occasions, but never was, or felt, threatened. On the contrary, I was always treated with the utmost respect and my safety was always assured.

Advisories and Warnings are written by Foreign Service officials who are obviously interested in protecting their posteriors. To do that, they like to play it safe, and putting out a warning is the safest way FOR THEM to go. Simply putting it: If nothing happens, it is all O.K., nobody will ever blame a Foreign Service Officer for "erring on the side of caution." However, if something happens and the Official FAILED to put out a warning, it can cost him his job. So the safe way to protect his posterior is to put out a warning, needed or not. As a matter of fact, the latest "Warning" put out by the State Department concerning the Philippines, does not mention any recent (less than 2 years old) incident involving any American, simply because there was none. Contrast that with New York City, Chicago, Los Angeles, or even with my home town, Las Vegas! If I would want to write a similar "Warning" about Las Vegas and publish it, the Clark County Visitors and Convention Bureau would have me skinned alive!!! The FACT is that not all places are safe in the Philippines. But neither are all places safe in Miami, Fort Lauderdale, Las Vegas, New York, and so on. However the places that we will select for the Program, will be just as safe as any good resort in the United States, or on the French Rivera!

If the Social Security Administration feels that it cannot creat such a program quickly and efficiently, my personal expertise is available for free to guide them! I can, and I am willing, to help to create a pilot program that can be made operational in six months or less! Similarly, if this Honorable Subcommittee would like to hear more details, I am willing and able to supply them. A quick field trip to the Philippines by the members of this Honorable Subcommittee would be most valuable, but not necessary. I would be happy to serve as the tour guide, so the Honorable members could see for themselves as it really is, and talk to many of us Americans who have already followed this route. As few as 3–4 days, excluding travel time, could do it, if I am involved in making the arrangements, in cooperation with, of course, the Embassy staff who have been instructed to cooperate: I believe that I may have more, and more relevant, contacts than what the Embassy has, though the prestige of the Embassy would be most helpful.

Respectfully submitted by e-mail and fax, on this 7th day of February, 2004.

Statement of Valerie Lichtman, San Bernardino, California

I urge this Committee to repeal the Social Security offsets by eliminating the Government Pension Offset and the Windfall Provisions.

My husband retired at age 70, he had paid into social security for 55 years and was an Air Force veteran. He died two years later from cancer. He only collected his benefits for 2 years. Because I am now a teacher in the California Public Schools, when I retire I will not be able to collect social security from him. If social security is just another payroll tax and welfare program, then every working person should pay into it, and none of us should expect to receive any money from it. Obviously the government is using this largess for whatever it pleases and once again duping the tax payer. I am appalled at the government's lack of action on these two provisions.

Statement of Ellen Mardis, Spring, Texas

Please HELP!

I find it hard to believe that the state of Texas is willing to STEAL peoples hard earned money. Just because someone has worked and paid into TRS instead of Social Security (when they were not ever given a choice) makes the ineligible to obtain their spouses benefits and/or a reduction in their benefits. My mother in-law worked as a school nurse and retired, she is now not eligible to receive her husbands SS benefits. He is in very poor health, medical bills are piling up and she is now worried for the first time in her married life on how she will manage on just her retirement.

Please, please, please work for Texas teachers and stop the theft! Teachers work very hard for very little pay, I can't believe that this is a possibility.

Statement of Stephen A. McFadden, Dallas, Texas

Social Security's Future: The Need for Reform of Problems with Constitutional and Civil Rights to Due Process and Equal Protection of the Laws in the Determination of Social Security Disability in Texas 1996–2003:

Introduction:

The Texas Health and Human Services (HHS) agencies are being reorganized during 2003–4, with the Texas Rehabilitation Commission (TRC) being integrated into the **Department of Assistive and Rehabilitative Services.**

The TRC Disability Determination Services (DDS), however, is a fully Federally funded unit operating under Federal law which is tasked to evaluate Social Security disability claims filed in Texas at the "initial" level for the Social Security Administration, and thus unlikely to significantly change in mission.

TRC–DDS has had a history of problems for most of the last decade. The majority of the policies discussed here relate to the operation of TRC–DDS under the watch of the TRC Deputy Director for DDS "Public Figure #1" between 1996 and 2002. During this era, TRC–DDS policies:

1. Took the Social Security "initial approval rate" in Texas—which directly reflects the results of claims determination by DDS—to the lowest in the nation by 2000;
2. took the overall psychiatric disability approval rate to about 2/3 of the national average by 1999;
3. refused to do psychiatric Medical Examinations even when ordered on remand by an Administrative Law Judge to the extent that the judge sued TRC and the SSA for violating his judicial independence;
4. failed to properly do Vocational Evaluations and to consider vocational factors;
5. allegedly distributed an October, 1996 "TRC Office Memorandum" which appears to red-line a class of medical conditions and several specific medical providers just as the 1990–1 Gulf War health effects became a national issue withregional "oil patch" implications; and,
6. by September 9, 2001 demonstrated an "industrial scale" program of unequal treatment and document fraud as part of an"overtime processing" program involving 12,000 claims in what is known as the "fake examiner" scandal.

These policies violate the Constitutional and Civil Rights of U.S. Citizens residing in Texas to **due process** in accordance with national program standards of the Social Security Administration, to **equal protection of the laws** as compared to residents of other states, to **contract** with the District of Columbia, and to **property** rights worth hundreds of millions of dollars. Tens of thousands of claimants have been affected, and hundreds of millions of dollars in benefits have been unlawfully denied. Justice demands remedies for these unlawful policies.

II. Political Background: National Events Relating to Gulf War Health Effects 1990–6:

By 2003, the 1990–1 Persian Gulf War was known to have caused adverse health effects in approximately 200,000 Gulf War military veterans.

In early 1991, during the U.S. invasion of Iraq, approximately 700 major oil wells were fired, which resulted in environmental damage from human activity on a unprecedented scale. These oil well fires were extinguished during 1991–2. Approximately 70% of the work was done by U.S. companies, many from Houston, Texas. These included Halliburton and its subsidiary Kellog, Brown, and Root (320), Boots & Coots (240), Red Adair (117), and others. Many of the workers were "blue collar" "roughneck" oil well firefighters from the "oil patch" including Texas. The effort to extinguish these fires occurred under extremely adverse conditions and time constraints. It served humanity by preventing even greater environmental devastation.

By April 1994, injured Gulf War veterans had raised sufficient concerns at the U.S. Congress that the Pentagon asked the National Institutes of Health (NIH) to hold a conference on the subject titled "The Persian Gulf Experience and Health."

The January 1995 release under the Freedom of Information Act (FOIA) of excerpts from the "Centcom Logs" revealed the existence of a purportedly "new" so-called "nerve gas," later said by one media source to have been "declassified by the National Research Council" in 1997, but which had actually been cited in a NRC report in 1983, and in the foreign literature for decades. This was followed by the test of 6 crude binary devices in the so-called "Japanese Subway Incident" just two months later, and the "Oklahoma City Bombing" the following month.

By Mid-1996, a report on "60 Minutes" revealed "The Kamasiyah Incident," in which a U.S. demolition unit blew up a "nerve gas" bunker with tens of thousands of troops nearby, drifting them with trace levels of nerve agents. The following month, "60 Minutes" did a report on the so-called "PB Nerve Pill," quoting a U.S. Senator Committee Chairman as saying that the use of the "nerve pill" during the 1990–1 Gulf War without proper informed consent was a "violation of the Nurenberg Principles" and "a breach of common decency."

By the Fall of 1996, with estimates of disabled Gulf War veterans nearing 20,000, the President's Commission on Gulf War Health Effects was preparing their report, while the U.S. threatened an invasion of Iraq on the eve of the 1996 Presidential election. Coincidently, an allegation of "rape" sand-bagged the head of the Army's Aberdeen Proving Ground, an accusation which was never proven, made by persons which included some who later said that they were told to lie. Incidently, APG is the host for Edgewood Area (APGEA), formerly and more infamously known Edgewood Arsenal, which prior to 1970 was the headquarters of the old U.S. Army Chemical Corps. The invasion of Iraq did not occur that Fall, would not occur for more than 6 years, and when it did circumstances were arranged so that the toxicological hazards were different. The details of these events are not obvious, except to the extent that they do involve purportedly "new" supposedly "secret" so-called "nerve gases," alleged violations of the Nurenberg Principles by senior U.S. officials, disabling injuries to hundreds of thousands of personnel, and the often legitimate information constraints of operational security and defensive policy.

While the Pentagon was trying to respond to the complaints of tens of thousands of injured Gulf War veterans, industry may have begun to have similar liability concerns. Television reporter John Stossel sent 2 "fake patients" undercover into the medical office of Dr. Grace Ziem, founder and medical director of the organization "MCS Referral and Resources," www.MCSRR.org, which publishes information on chemical injury. Ziem blocked the undercover story by suing Stossel under the Maryland wiretap law. The "Stossel Wiretap Case" was reported by Todd Spangler and distributed by the Associated Press on or about October 19, 1996.

III. Policymaking Changes Made Affecting the Determination of Social Security Disability in Texas which Occurred During October 1996:

Major policy changes appear to have occurred in the determination of Social Security disability in Texas during October, 1996. We warn the reader, however, that extreme care should be taken to avoid making inferences of causality between coincident related events, because the time line is quite sketchy, and connections un-

documented. Additional, in considering the issue of responsibility, it is notable that while toxicological issues may be quite complex and involve incomplete knowledge, legal rights to due process and equal protection of the laws are very clear.

In October 1996, "Public Figure #2" (unnamed), the former U.S. Secretary of Defense during the 1990–1 Gulf War, was Chief Executive Officer (CEO) at Halliburton, then headquartered in Dallas, which owned Kellogg, Brown, and Root of Houston, which together had some of the greatest involvement in the 1991–2 campaign to extinguish the Kuwait oil well fires (320), and presumably had some of the greatest potential liability for civilian health effects from the Kuwait campaign.

Barriers to the public understanding of what may or may not have occurred that month not only include the SSA's limitations on requests made under the Freedom of Information Act (FOIA), but also include the fact that the papers of the Governor of Texas in October 1996, "Public Figure #3" (unnamed), have since been sealed as Presidential Papers. In many states, however, the head of the SSA Disability Determination Services agency is appointed by the governor of the state.

The TRC Commissioner at the time, Vernon M. "Max" Arrell, had been appointed in 1981, and still held that position in 2003, 22 years later, through both Democratic and Republican Administrations.

In October 1996, Kenneth Wayne Vogel, then TRC Deputy Director for DDS, was promoted to Assistant Commissioner. Mr. Vogel, however, died in a hunting accident on December 14, 1996, roughly 2 months later, according to an obituary later published in an annual report for the Texas Rehabilitation Commission.

"Public Figure #1" replaced Mr. Vogel as TRC Deputy Director (DD) for DDS in October 1996.

That same month (exact time sequence unknown), on October 19, 1996, the AP newswire report on the "Stossel Wiretap Case" in Baltimore, Maryland was published in the Austin American Statesman in Austin, Texas.

We have been provided by an anonymous source out of Austin a memo on "Texas Rehabilitation Commission Office Memorandum" letterhead of unknown provenance. We have done our best to authenticate it, but are limited by the Social Security Act and other law. We have not been able to identify the author, but we have been able to identify the majority of the distribution list. The memo, dated October 21, 1996, comments on the Stossel/Ziem "Wiretap" news story published 2 days before in the local paper, and makes statements regarding the legitimacy of a class of medical conditions, and the credibility of several specific medical treatment sources in Texas.

The 'October 1996 TRC Internal "MCS" Memo', as we call it, which refers to the story on Dr. Ziem's practice, is relevant to the condition of blue collar workers in the oil industry in places like Houston because Dr. Ziem's organization, MCSR&R, distributes medical literature on chemical injury, including porphyria, which is a condition that can be induced in susceptible individuals by exposure to large amounts of toxic hydrocarbons—such as might occur when fighting an oil well fire, and because many blue collar workers in the "oil industry" in places like Houston were exposed to such toxics, including many during the 1991–2 Kuwaiti oil well fires.

The October 1996 TRC Internal "MCS" Memo has the potential to effect an official TRC–DDS policy in Texas—**to become in effect an unpublished state law**—in violation of national program standards of the Social Security Administration, in that its distribution list includes "All SAMC's," the State Agency Medical Consultants evaluating disability at the central office of TRC–DDS in Austin. This "de-facto unpublished state law" may thus be interpreted in light of the prohibitions against such laws in the XIV Amendment of the Constitution of the United States and 42 USC 1981, 3, and 5(2).

IV. The Consequences of the TRC–DDS Policies Set in October 1996:

By 2000, 4 years after the appointment of "Public Figure #1" as TRC Deputy Director for DDS, Texas had the lowest "initial approval rate" in the nation for Social Security disability claims.

The overall approval rate (for combined "initial," Administrative Law Judge (ALJ), Appeals Council, and Federal Court decisions) for psychiatric disabilities was roughly 2/3 of the national average in 1999, according to an editorial in the Houston Chronicle.

Processing roughly a quarter million claims per year for an average of about $300 apiece, the purchase of Vocational Evaluations and Medical Examinations by TRC–DDS must have necessarily been limited. One Dallas ALJ sued TRC and SSA because DDS would not do psychiatric Medical Examinations on claimants he remanded back to DDS for such examinations. Former SSA Commissioner Kenneth S. Apfel stated at a conference that Texas had not done enough to consider vocational factors in the determination of disability.

"Public Figure #1," who was named on the distribution list of the October 1996 TRC Internal "MCS" memo, held the position of TRC Deputy Director for DDS through the "fake examiner" scandal which broke on September 9, 2001, involving the handling 12,000 claims differently than others and "industrial scale" document fraud. Why these 12,000 were specially selected for "overtime processing" out of the 220–330,000 processed each year has not been revealed.

V. Constitutional and Federal Laws Violated by TRC–DDS Policies 1996–2003:

We allege that the policies of "Public Figure #1" as TRC DD for DDS during 1996–2002 and perhaps beyond **denied U.S. Citizens residing in Texas V and XIV Amendment Constitutional and 42 USC Chapter 21 Subchapter I Civil Rights:**

1. **To *due process,* in accordance with national program standards of the Social Security Administration;**
2. **to *equal protection of the laws,* as compared to residents of other states;**
3. **to *contract,* with the District of Columbia; and**
4. **to *property,* totaling hundreds of millions of dollars of benefits lawfully due to tens of thousands of claimants.**

These policies are reminiscent of the SSA's **"Grant Case"**, where an ALJ was shown to be generally biased against claimants: **"The core allegation in this matter is that ALJ Rowell was biased generally against disability claimants and his bias deprived them of their right to a full and fair hearing in violation of the Social Security Act and the due process clause of the Fifth Amendment to the U.S. Constitution."** (Cause no. 3:CV–88–0921, Grant v. COSS, U.S. District Court for the Middle District of Pennsylvania, filed August 12, 1988.)

The Present situation, however, is *FAR MORE SIGNIFICANT* than the Grant Case in that it involves a *State Director of a Disability Determination Services* developing and determining "initial" claims for the SSA, *tens of thousands of claimants,* and *a systematic failure to develop evidence of disability that could for Pro Se claimants prejudice the consideration of such cases at the ALJ and subsequent levels of determination*.

VI. Discrimination Complaints Filed with the SSA Office of General Counsel (OGC) on Behalf of Four Groups of Texans as a Result of TRC–DDS Policies from 1996 to 2003, for Violations of Constitutional and Civil Rights Impacting an Estimated 30–50,000 Claimants with an Estimated Total of Unalwfully Denied Benefit of More Than a Half Billion Dollars:

Discrimination Complaints have been filed with the Social Security Administration (SSA) Office of General Counsel (OGC) on behalf of four groups of Texans regarding improper determination of Social Security disability at the Texas Rehabilitation Commission (TRC) Disability Determination Service (DDS) at their central office in Austin, Texas.

These events occurred primarily during the administration **of TRC Deputy Director (DD) for DDS** "Public Figure #1" (named) **from 1996 to 2002**, if not beyond, **whose policies led within 4 years to Texas having the "lowest initial approval rate" in the nation in 2000**, before being replaced after the revelation of the September 2001 "fake examiner" scandal.

These groups are:

Date Filed:	est. Number:	Name of Group/Complaint:
#1: 1/28/2004	1,000–10,000	**The "Kuwait Oil Well Firefighter" case**

Occupationally injured Kuwait oil well firefighters and "oil industry" workers who were allegedly **"red-lined" by a TRC Office Memorandum dated October 21, 1996 on the subject of chemical injury that cites on its distribution list "All SAMC's," the State Agency Medical Consultants** who advise on the determination of disability at the central office of TRC–DDS in Austin under the direction of the DDS Chief Medical Consultant. Notably, a 2001 statement by the SSA Federal Region VI spokesman initially cited occupational injuries "in the oil industry and

elsewhere" as the reason why Texas had the "lowest initial approval rate in the nation" in 2000, although that was later retracted.

Date Filed:	est. Number:	Name of Group/Complaint:
#2: 1/29/2004	est. 12,000	**The "Fake Examiner" case**

The "fake examiner" scandal which broke September 9, 2001, in which **24 fake names with the first initial "W," one for each medical claims unit, were used on cases selected for unexplained reasons for "overtime" processing at TRC–DDS by multiple personnel who therefore did not understand the entirity of the case file and had no accountability for case outcome**. These DDS procedures included, in at least some cases, submitting false documents to SSA. **Whether the selection criteria used in choosing these 12,000 claims out of the 220–330,000 processed per year for this unequal treatment was itself discriminatory is not known**, but should be determinable during an audit using detailed case flow analysis.

Date Filed:	est. Number:	Name of Group/Complaint:
#3: 1/30/2003	appx. 25,000	**The "Vocational Evaluation" case**

The systematic failure of TRC–DDS to do Vocational Evaluations on disability claimants, and therefore failing to consider vocational factors contributing to disability in accordance with national program standards of the Social Security Administration, in trying to process 220–330,000 claims per year for a cost of between $275–300 apiece. This policy may be significant to roughly 5% of unique claimants of those who filed 1.5–2 million disability claims during this time period. Notably, TRC–DDS is entirely funded by SSA, and the cost of determination of disability at DDS constitutes only about 2% of the total SSA disability program costs in Texas, so there is no fiscal excuse for this failure to comply with national program standards of the SSA.

Date Filed:	est. Number:	Name of Group/Complaint:
#4: 2/5/2004	appx. 50,000	**The "Psychiatric Disability" case**

Estimated roughly 36,000 **claimants with psychiatric disabilities**, plus roughly 18,000 **claimants "regarded as having" psychiatric disabilities as a result of misdiagnosis**, who may have been denied a psychiatric Medical Examination, a Vocational Evaluation to consider vocational factors of psychiatric disability, and/or proper development of their claim. **The consequence of these factors was an approval rate that was trippley low: an overall psychiatric approval rate in Texas of approximately ⅔ of the national average in 1999, in a state which then had the "lowest initial approval rate" in the nation in 2000, despite those statistics being inflated by mis-classified non-psychiatric claimants.**

Estimated Total Number of Claimants Impacted: 30–50,000
Average Monthly Payment for Social Security Disability Claimants in Texas: $750
Estimated Total Denied Benefits: 540–900 Million Dollars (over a half-billion dollars)
(750/mo * 12 for {[(½ * ['97–'02])+1)] yrs * ½ = est. 2 yrs ave.}) = ($9K * 2y * 40K) = $720M

Note that the total count is not additive because there is a high probability of duplicates between these groups. For instance, there may be an "injured Kuwait oil well firefighter," who is "regarded as psychiatric" by TRC–DDS, who may have been consequently evaluated by a "fake examiner," who was not provided with a "Vocational Evaluation," on what may have been their third application. Thus, a single individual could have potentially been counted in four groups.

VI. Closing:

The determination of Social Security in Texas during 1996–2003 has demonstrated "industrial scale" violations of Texans' Constitutional and Civil Rights to due process, equal protection of the laws, to contract, and to property, affecting tens

of thousands of claimants, and resulted in hundreds of millions of dollars of unlawfully denied claims.

Three quotes seems relevant to this problem:

From: "Judges Vary Sharply on Disability Approval: Social Security Rulings Concern Lawmakers," Alan Bernstein and Dan Feldstein, Houston Chronicle, 7–14–02 A.1.

"'It rings a very serious fire bell that the Social Security justice system is not treating all of the applicants equally or consistently' said U.S. Rep. John Culberson, R-Houston. 'And that is a recipe for disaster under our American system of law.'" From: "Judges Vary Sharply on Disability Approval: Social Security Rulings Concern Lawmakers," Alan Bernstein and Dan Feldstein, Houston Chronicle, 7–14–02 A.1.

However, Green said the gap in allowance rates by each judge is troubling by itself, and casts doubt on the fairness and integrity of the disability program. 'If we are having that kind of disparity . . . it's just wrong,' he said." From: "Judges Vary Sharply on Disability Approval: Social Security Rulings Concern Lawmakers," Alan Bernstein and Dan Feldstein, Houston Chronicle, 7–14–02 A.1.

The percentage of decisions at the hearing level that were favorable for both DI and SSI claimants stood at 58 percent in 1985, grew to nearly 72 percent in 1995, fell to 63 percent in 1998, and grew again to 66 percent in 2000. Hearing offices also vary greatly from State to State in the percentage of decisions that are decided favorably for claimants. In 2000, the range went from 35 percent in the District of Columbia to 86 percent in Maine, with a national average of 66 percent. Unexplained descripancies of this magnitude are simply unacceptable in what Congress intended to be a fair and uniform national program. "Charting the Future of Social Security's Disability Programs: The Need for Fundamental Change," Social Security Advisory Board, January 2001.

Tens of thousands of claimants have been affected, and hundreds of millions of dollars in benefits have been unlawfully denied. Justice demands remedies for these unlawful policies.

VII. References:

1. **Stephen A. McFadden, M.S.:** How the Operation of Texas Rehabilitation Commission (TRC) Disability Determination Services (DDS) Prejudices the Determination of Social Security Disability in Texas, Including Decisions by the Texas SSA Office of Hearings and Appeals (OHA). U.S. House of Representatives, Committee on Ways & Means, Subcommittee on Social Security, "Hearing on the Social Security Administration's Management of the Office of Hearings and Appeals," October 1, 2003. (Includes citations of SSA policies and precedents relating to chemical injury, and applicable Constitutional law and U.S. Code.)
2. **Lawrence A. Plumlee, M.D.:** Lack of Due Process and Equal Protection of the Laws in the Determination of Social Security Disability in Texas: The Urgent Need for Reform: U.S. House of Representatives, Committee on Ways & Means, Subcommittee on Social Security, "Hearing on the Social Security Administration's Management of the Office of Hearings and Appeals," October 1, 2003. (Includes references to approximately 45 news articles in the Houston Chronicle 2001–3 on problems with the determination of Social Security Disability in Texas.)
3. Cause No. 1:96-cv-03338–MJG, **Ziem v. Stossel, et al.** U.S. District Court for the District of Maryland, filed October 23, 1996. (The "Stossel Wiretap Case." Television reporter John Stossel targeted a civilian environmental health physician dealing with chemical injury cases for a discrediting undercover television expose' by sending "fake patients" into the physician's medical office carrying recording devices, a plan that was blocked when the physician learned of the it from a colleague, and filed suit under the Maryland Wiretap Law.)
4. Cause no. 03:01CV816, **Williams v. Massanari, et al.** U.S. District Court, Dallas Texas, filed April 30, 2001. (Administrative Law Judge Christopher Lee Williams, one of 17 ALJ's at the OHA's in Dallas, sued TRC–DDS and SSA for impairing his judicial independence due to the failure of TRC–DDS to perform psychiatric Medical Evaluations on indigent claimants in cases he remanded back to TRC–DDS for further development.)
5. Cause no. 3:CV–88–0921, **Grant v. COSS**, U.S. District Court for the Middle District of Pennsylvania, filed August 12, 1988. ("The core allegation in this matter is that ALJ Rowell was biased generally against disability claimants

and his bias deprived them of their right to a full and fair hearing in violation of the Social Security Act and the due process clause of the Fifth Amendment to the U.S. Constitution.) http://www.pamd.uscourts.gov/opinions/muir/88v0921.pdf

Statement of Donna Searles, Odem, Texas

I am writing to inform you that I believe the practice of excluding Texas teachers from collecting social security is a form of discrimination.

I have worked enough quarters outside the education setting to collect social security and Medicare, yet am denied this because I chose to become a teacher.

I will not be allowed to collect my husband's social security because I chose to become a teacher, while women who have never worked are allowed to collect on their spouse's SS.

In effect, we are being penalized because we educate future generations of Texans.

How can you let this happen with good conscience?

It's a shameful way to treat people who perform such a valuable service to our state.

Statement of Mil Thornton, Santa Ana, California

The Social Security Fairness Act repeals the discriminatory and arbitrary offsets to Social Security benefits for government workers and teachers. This important legislation affects the quality of life for every public employee, and every user of public services, in this country.

Hard working employees deserve a decent retirement. Nurses, social workers, educators and other public employees who serve this country need your help. Support the Social Security Fairness Act. (H.R. 594 and S. 349)

Without the Social Security Fairness Act, more than 300,000 public service employees will continue to receive hundreds of dollars less in monthly social security benefits than their private sector counterparts.

Respect the people who have dedicated their careers to serving the American people and promote common-sense retirement policies that will attract the qualified employees to health care, social work, parks and other important public service fields.

The fifteen thousand members of the Orange County Employees Association thank you for your support of the Social Security Fairness Act.

Travis, Wolff & Company, L.L.P.
Dallas, Texas 75240
February 7, 2004

Congressman E. Clay Shaw, Jr.
Chairman, Subcommittee on Social Security
Committee on Ways and Means
U.S. House of Representatives
Washington, D.C. 20515–6100

Dear Chairman Shaw:

TravisWolff respects and honors the diligence and commitment shown by you and other members of the Subcommittee on Social Security in furthering honest debate about proposed solutions to one of the most important and complex policy issues ever faced by the United States. In this regard, we are pleased to have the opportunity to offercomments on the future of our nation's Social Security system as requested by the Subcommittee's January 16, 2004 advisory. Our comments herein specifically address (1) definition of Social Security issues, (2) proposed changes offered by others, and (3) suggestions for further study.

"TravisWolff" refers to a group of entities (see Appendix I) performing advisory and accounting services for small to medium-sized businesses, exempt organizations, trusts and individuals. With approximately 100 personnel in Dallas, Texas, we advise clients on taxes, retirement plans, business valuation, and other financial mat-

ters, as well as prepare tax returns and audit financial statements. TravisWolff is part of the Moore Stephens network, with offices worldwide.

Most of the ideas for changing Social Security fall into three areas. Those are (1) financial soundness, (2) system design, and (3) administration. We believe that Congress has done an admirable job helping the Social Security Administration (SSA) to improve its administration. Therefore, the remainder of this letter is in reference to financial soundness and system design.

The role of ideology

In any discussion of Social Security reform, it is important to understand differences in orientation to the potential issues. This is essential before the real issues can be identified.

Most people know:

- Of the upcoming surge in retirements of "baby boomers;"
- that the number of workers per retiree has declined and will continue to for some time;
- that Social Security is largely "pay-as-you-go;" and that the Social Security Trust Funds are projected to be exhausted before the middle of this century.

Their reactions to this situation vary according to age, income, accumulated wealth, marital status and gender.

Younger Americans are concerned about rate of return on their contributions. Numerous financial commentators have suggested that the rate is extraordinarily low. That may be so, but measurement on an individual basis is difficult, since Social Security is not solely a worker retirement benefit. Social Security also pays worker disability benefits, spouse retirement benefits (including divorced spouses in certain cases), a very small lump sum death benefit, and income for surviving dependent children (and caretaker surviving spouses) of deceased workers.

For middle class Americans of all ages, assuredness of benefits and adequacy of benefits are very important, although there is variation by age. Representative attitudes might be:

- Age 30—"I won't get my share before it runs out of money."
- Age 50—"I've paid too much in over the last 30 years to turn my back on it, and I've counted on Social Security benefits
- Age 60—"Perhaps I could have saved more, but I wanted my wife and children to have a comfortable life. I've paid into this thing for 40 years, and soon it will be my turn."

Wealthy Americans are not as likely to be bothered by any suggested changes to Social Security except to the extent income or payroll taxes are increased. As used herein, "wealthy Americans" would include those whose projected Social Security retirement benefit would be 10% or less of their total retirement income.

- Additionally, there are some specific ideological schisms:
- Purpose of Social Security benefits
- The nature of Social Security taxes
- Principles regarding property rights and societal benevolence

Clearly, from the time of its introduction until recently, Social Security has been a universal base for retirement planning. It was to be supplemented by employer sponsored retirement plans and private savings (the "three-legged stool"). If it had been meant as a welfare plan, its funding would have come from general revenues, as opposed to a special tax on earned income below a specific threshold.

Some people have begun to question whether the purpose should change. There have been suggestions regarding means testing of the benefits, which erodes universality. Still others believe that Social Security benefits should be property transferable by gift or inheritance.

Are Social Security taxes just like any other taxes, or are they more like a purchase of insurance with investment elements? Remember that the "I" in FICA stands for insurance.

Should Social Security taxes continue to exist and be earmarked for the Social Security system? Some say "no." They would abolish Social Security taxes, establish a welfare plan for the poorest retirees, and suggest that everybody else save for retirement on their own terms.

All the issues above and the following questions should be discussed publicly without any political "spin."

- What ethical principles should apply?
- To what extent does society owe a larger share of Social Security benefits to low-wage workers?

- To what extent is it fair to expect the next generation to pay higher taxes to finance retirement benefits for its predecessor?
- To what extent should parents have the right and/or obligation to pass accumulated wealth to their children?

None of these questions have single, easy answers.

The Issues Defined

When a comprehensive "plan" for "overhaul" of Social Security is proposed, many elements become mixed, and that makes the proposal difficult for an average person to understand. This letter uses the following conceptual framework to simplify the issues.

1. Financial soundness
2. System design
3. Adequacy of benefits
4. Design of benefits
5. Funding scheme

Financial soundness

Financial soundness is the province of actuaries, accountants and economists. The American public should not be misled in this area by politically biased "think tanks," or "spin doctors."

The words "solvency" and "insolvency" have been used in different ways by people writing about Social Security Reform. Some refer to the Social Security system becoming "insolvent" when current payroll taxes plus interest on the Trust Funds is no longer sufficient to pay the current year's benefits (projected by SSA to be 2018). Others have used "insolvency" in reference to the time at which the Trust Funds become exhausted (projected by SSA to be 2042).

Because yearly projections of the system by SSA have traditionally used a 75-year horizon, many have used that in evaluating financial soundness. However, the assumptions used by SSA involve sustaining the trust funds for 75 years, and no longer. Thus, each year the target moves.

Financial soundness should be measured using an infinite time frame, in the manner promoted by the AmericanAcademy of Actuaries.

The current system has already been shown to be unsustainable, since it is projected to be bankrupt in 2042, long before the 75-year horizon. The American Academy of Actuaries has used an infinite time frame to project effects of some proposed changes to the Social Security system.—The effects of proposed changes on financial soundness or "sustainable solvency" are not always intuitive for a non-actuary.

System Design

Adequacy of benefits

Here, we speak of replacement ratios. "Replacement ratio" means Social Security retirement benefits divided by pre-retirement earnings.

How much is enough? Traditionally, Social Security has provided as much as a 55% replacement ratio for low wage workers. The replacement ratio for higher wage workers is less. The proper target for replacement ratios in a changed system is the subject of debate.

Another aspect of adequacy is keeping pace with inflation. Currently, Social Security benefits are indexed to keep pace with wage inflation. Many proposals have been advanced to switch the indexing to keep pace with price inflation. In the past, wage indexing has been slightly higher than price indexing. It is thought that a switch would reduce costs by restraining growth in cash outflows. Of course, this cost savings would become an issue of adequacy for retirees and near-retirees.

Who should benefit? Currently, Social Security benefits more than just disabled and retired workers. There are also benefits for spouses (and divorced spouses) of retirement age, surviving dependent children (as well as for surviving spouses who are caretakers of children receiving benefits). These additional benefits are questioned for two reasons. First, many people do not feel that it is fair to give disparate benefits on the basis of family or marital status. This, of course also leads back to the "money's worth" issue for single workers without children. Second, such benefits do not easily fit within a "personal account" Social Security system.

Finally, adequacy issues include means testing. Simply put, "means testing" denies or recaptures a benefit level or feature of anyone who does not need it. Currently, taxation of a portion of Social Security benefits is an indirect form of means testing. The political viability of expansion of means testing is doubtful. Many people at or near retirement age would assert that the universality of Social Security should not be disturbed. Also, the "money's worth" argument could be made.

Presume however, that some form of expanded means testing is acceptable to voters. Fairness in means testing could become quite complex.

On the basis of:

- Income? If so, what income? Earned income, taxable income or all income
- Assets? What would be exempt? What about transfers to family members, trusts and private foundations?
- Combination of assets and income?

Still, we believe that various forms of means testing should be explored in practical detail as part of any proposed reform of Social Security.

Design of Benefits

The current system provides defined benefits. That is, a worker (or in some cases, his/her spouse or dependent children) is entitled to prescribed benefits based upon the worker's earnings record.

Defined benefits have become less prevalent in employer sponsored retirement plans, primarily because of portability issues. Those issues are insignificant with Social Security, since most people will work within the Social Security system their whole career.

The push for Social Security to drop defined benefits is more rooted in the "personal accounts" and "money's worth" philosophies.

Many people are interested in personal accounts as part of a reformed Social Security system. Personal accounts allow a worker to reap some or all rewards of fortuitous investment. It would be impossible to make that happen in a continuation of the defined benefit system.

Funding scheme

Who should pay, and how much? Proposals have been made to expand coverage and taxation to groups currently outside the system. Others have suggested changes to the Social Security tax. Currently, the tax is imposed on a limited amount of earned income. What if all earned income were subject to tax (and benefits calculation)?

Of these suggestions, the one which creates the greatest gain in financial soundness is also one of the least popular . . . —uncapping the wage base.

Whose benefits should I pay for? This question reflects concerns over both intergenerational equity and socioeconomic issues.

Should the system be converted to full pre-funding, or remain mostly "pay-as-you-go?" If there is a conversion to pre-funding, the transition deficit must be addressed. Briefly, the "transition deficit" is the system shortfall created by causing current workers to pay for their own future benefits, rather than those of the preceding generation. Various "trial balloons" have been floated over the past few years with regard to the transition deficit . . . lower benefits, raise taxes, better returns on investment, *etc*. Lately, however, it has become consensus that some form of transfers from general revenue will be necessary.

In a recent article, economist Milton Friedman seemed very open in his view that the transition deficit could easily be addressed. Just give the Trust Funds government bonds equal to the unfunded benefits obligations. Actually, in his example, the bonds were given directly to participants, but the result is essentially the same. The "compact between generations" is settled by converting it to a general obligation of the United States.

Obviously, the obligations would be paid off with general tax revenues at some point. However, the simple attraction of covering the transition deficit with general revenue transfers is that as a nation, we could stop arguing about this particularly contentious issue, and move on with the process of building a new Social Security system that most people believe in.

We urge further study of the tax and general economic effects of an instantaneous "pay-off" of the transition deficit with general obligations.

Finally, it seems undisputed that women are disproportionate recipients of benefits under the current system. This of course is due to longer life expectancy and other factors. It is a matter of some dispute how race or ethnicity factors into the "money's worth" debate. A new system should be neutral as to gender, race and ethnicity.

Ideas we propose for further study

Means testing for retirement benefits beginning before age 70

According to the American Academy of Actuaries, raising the retirement age to 70 (gradually by 2030) could make a dramatic difference in the finances of the current system. Although this idea seems to have merit, we are afraid that some work-

ers would be hurt by wholesale application of a rise in the retirement age. We would like to know what would happen, given the current system, under the following scenario.

- Leave current benefit levels in place
- Leave early retirement as of age 62 in place.
- Leave current Social Security retirement ages in place.

Impose some form of means testing for benefits beginning before age 70. For simplicity, we would suggest not allowing benefit payments during years before attainment of age 70 to the extent that total positive income (taxable and tax-exempt) for the preceding year was greater than half the Social Security wage base.

- Upon attainment of age 70, means testing would no longer apply.
- No actuarial adjustment for delayed benefits

"Clean slate" plan

We would like to know the tax and general economic effects of a complete transition as of January 1, 2005. Here are parameters we envision.

1. For those in pay status, continue payments (including disability payments) from the Trust Funds.
2. Benefits not yet in pay status
   a. Retirement benefits of a worker based on his own earnings record would be valued ("Retirement PVFB," as below) and transferred to an account balance under the new system.
   b. All other benefits based upon a worker's earnings record (*e.g.*, disability, spouse, divorced spouse, and dependent children, *etc.*) would be paid from the Trust Funds if and when they become due.
3. Value benefits not yet in pay status under the current system as of January 1, 2005.
   a. Count only past service (i.e., earnings prior to January 1, 2005)
   b. Allow for future cost-of-living adjustments (COLAs).
   c. Define present value of future benefits (PVFB)
      i. Require 100 credits for full benefits. "Credits" would be defined as under the current system.
      ii. Determine the credits ("C") for the worker upon whose record benefits are based.
      iii. Determine the present value of future benefits of the worker and all others (then living) with a potential future claim to benefits based upon the worker's earnings record. Call this "tentative PVFB." Regardless of potential beneficiaries, only one PVFB is calculated per worker.
      iv. PVFB equals tentative PVFB times C divided by 100.
   d. Based upon sound actuarial principles, allocate each worker's PVFB into two portions:
      i. Retirement PVFB—PVFB attributable to the worker's retirement benefit
      ii. Other PVFB—PVFB minus Retirement PVFB
4. Establish a brand-new Social Security Retirement system with a "clean slate."
   a. Provide an individual account for each worker, tradable within a limited range of appropriate alternatives.
   b. Deposit a government bond (tradable) equal to the worker's Retirement PVFB into his/her account as of January 1, 2005.
   c. Administrative matters
      i. Each worker would own his/her account.
      ii. A payroll tax would be continued, and contributed to each worker's account.
      iii. The "50–50" sharing of payroll tax cost between employer and employee would continue.
      iv. The spouse retirement benefit, as an add-on, would cease to exist, as would the "divorced spouse" benefit.
      v. Upon divorce, accounts of each spouse could be considered and divided in accordance with a court order.
5. Establish a new system (or expand SSI) to replace welfare benefits phasing out under Social Security.
   a. Disability

b. Death
   i. Lump sum—increase to a meaningful amount (perhaps $5,000)
   ii. Benefits for dependent children (and caretaker surviving spouses) of deceased workers

Thank you for considering TravisWolff's views on Social Security reform. Should you need any further feedback from us regarding this or any matter of tax, accounting or retirement planning, please do not hesitate to contact us.

Sincerely,

Gary W. Wyatt

Statement of D. Paul Vollman, Jr., Chapel Hill, North Carolina

Overhauling Social Security: Protecting, Privatizing, and Guaranteeing our Nation's Retirement Income

In this paper the author explores the impending problems of the Old Age Survivors and Disability Insurance (OASDI). The system is slowly approaching a crisis in the coming years. The Trust Fund will be exhausted with trillions of dollars in liabilities unable to be funded under the current law. It is a consensus that the payroll tax will have to be raised to 18.4%, a 50% increase from current level of 12.4%, if the system is to remain solvent (Kotlikoff and Sachs, 1997). Social Security needs to be changed, reformed, and possibly completely overhauled. ***This paper demonstrates that retirement benefits can be increased by an average of 69% over the current Social Security benefits by investing in the stock market. Furthermore, the downside can be protected with a payroll tax increase of less than 1% put towards an insurance program that would provide a minimum benefit guarantee.***

The US equity markets have consistently provided the highest returns to investors over the past century. The author performs a simulation—a hypothetical experiment from empirical stock market and demographic data to compare the success of a privately invested portfolio to historic Social Security benefits. The results are that the private accounts would have beat OASDI 52% of the time, and during the years when it out performed OASDI it would have given the retirees on average a 69% increase in their benefit level. Furthermore, OASDI income replacement rates averaged historically about 37%. Under a private account system these rates would have increased to 57%.

One of the largest criticisms of private accounts systems which are invested in the stock market is the volatility and dips associated with bear markets and downturns. The simulation demonstrated that when the stock market would have returned benefit levels below current Social Security, it only missed the targets by an average of 18%. This problem can be eliminated if the government will guarantee a minimum level of benefits and raise the benefit levels of those people who retire below the minimum. This guarantee will be funded by insurance premiums paid by the people. The author explores two systems, one in which the government guarantee is set to an across the board $10,000 level for all income levels. Under a separate scenario, the simulation uses minimum guarantees that are set to the current estimated benefits that OASDI provides. The author determined that a premium tax rate ranging from 0.340% to 0.938% of payroll could have funded such insurance historically. This would effectively be an increase in payroll taxes of less than 1% which is drastically smaller than the other increases currently proposed.

The paper concludes that it is optimal to invest in equities because their return will allow for greater retirement benefits for the nation's elderly. At the same time, the retirement income is not compromised by investing in the stock market because the insurance premiums will protect individuals in down market years. Other key issues central to implementation and social equity are also addressed.

Statement of Stephen Zwirn, Work Search Organization, Tamarac, Florida

BACKGROUND INFORMATION:

The Worksearch organization is a private for-profit organization, located in Florida, currently contracted with the Social Security Administration, under the Ticket

to Work and Work Incentives Act, as an Employment Network (EN). Worksearch has been involved with disability and return-to-work programs within the private sector for about twenty-five years. As Project Director, I'd like to offer the House Ways & Means, Sub-Committee on Social Security, my written statement and recommendations regarding the future of the Social Security Disability program.

Introduction:

Prevailing return-to-work policy on the Social Security Disability insurance program focuses most of its attention on supply side concerns, or concentrates on the disabled individual. That is to say, altering or expanding employment, vocational, and related educational services directly to the beneficiary population. To involve beneficiary choice in their services, adding a variety of related work incentives to influence beneficiaries to chose to work or not work, with the State Vocational Rehabilitation (VR) agencies centering most of its attention on the beneficiaries medical impairment for jobs and employment services. However, by focusing more attention on the workplace rather than solely upon the individual disabled beneficiary, through the integration of current and future employment practices, we will start to see better employment outcomes under the Social Security disability program.

Recommendations:

Change the definition of disability to focus on the ability to earn through employment.

A. To establish beneficiaries residual functional capacity to demonstrate an ability earn and work.
B. Early return-to-work either rehabilitation or employment services, early, or at the time of application for disability benefits.
    1. Allow for beneficiary choice of service providers, either public or private.
    2. Time limited services.
    3. Medical Case management services.
    D. Provide workplace support mechanisms or work incentives at the time of disability application and during the rehabilitation or employment service period.
    E. Vocational Assessment based upon actual employer skills and competencies.
        1. Wages and earnings based on actual jobs within the beneficiary's labor market.
        B. Allow for separate categories of disability status, such as:
            1. Total disability-Complete inability to earn and work.
            2. Partial disability-Beneficiary has a residual functional ability to earn and work.
            3. Temporary or Permanent status.
            D. Integrated Disability Management and the Changing Labor Market.
                1. Develop an integrated disability management project to connect with employer recruitment and job retention for disabled Social Security recipients.
                2. Employer based recruitment strategies that work:

Employer based referral systems and networks. Transferable Skills and competency based job evaluation Skills supply chains for retention, job mobility, and increase earnings. Employer sponsored training and development to increase earnings.

Conclusion:

By focusing on employer based recruitment and disability management practices, some of which has had success with other disadvantaged members of the population, it is feasible to achieve a higher degree of jobs and earnings success with the Social Security disability population than before.

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