Congressman

Paul E. Kanjorski

Report to the 11th District
on Social Security

Social Security and the Federal Budget

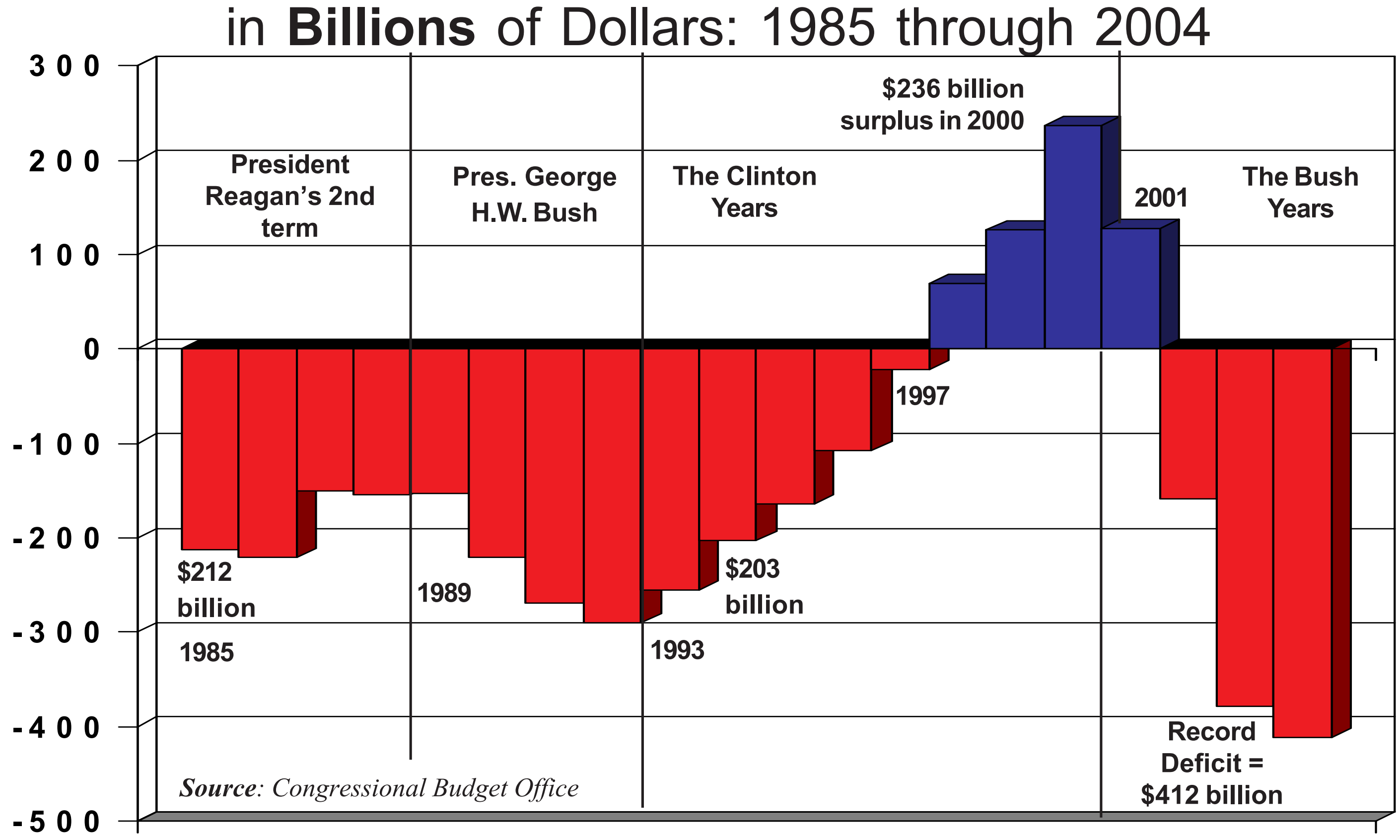
Every American family understands that it must earn more money than it spends. Occasionally we will take out loans to invest in long-term assets like a home or a new car, but we understand that we must pay back that loan or else risk losing the asset. We also risk facing higher interest rates on future loans or be denied loans altogether if we have behaved irresponsibly and failed to repay those loans.

The federal government faces the same realities. There are times when the government needs to spend more money than it collects in taxes. Defending our nation's security and stimulating a weak economy are two examples of when it makes sense for the government to borrow money because the long-term investment is worth more than the short-term costs of borrowing. However, for the long-term health of the American economy, it is essential for the federal government to limit its borrowing and work to pay off its debt.

When the government spends more than it takes in, it runs a deficit. Each year's deficit accumulates into the total debt of the United States. In 2004 the federal government's deficit equaled $412 billion, the highest amount in the country's history. Our level of debt is also historic: more than $7.6 trillion. That money is owed to those institutions and individuals who purchased Treasury notes, which yield interest that adds even further to our debt. Many of these institutions are in foreign countries, primarily Asia. They may one day decide that the United States is too much of a credit risk and will either demand higher interest rates or decide to stop lending us money altogether. At that point the federal government will need to take drastic actions just to meet its immediate obligations, such as paying Social Security benefits.

Now is the time to avoid drastic actions by balancing our budget. Comprising approximately 22% of total federal expenditures, Social Security is the single largest federal program and its future is dependent on the health of the federal budget. I supported President Clinton's drive to balance the budget and use the surplus to save Social Security first. For four years, the federal government actually spent less money than it took in and began to pay down its debt. If we had maintained that course, we could have paid off the debt in 12 to 15 years and used the savings from avoided interest payments to stabilize Social Security for 75 years. Our deficit once again shot up under President Bush as a result of tax cuts, economic problems, and increased government spending for the war in Iraq and homeland security. We can return to balanced budgets by making difficult decisions about our national priorities. My priority is to maintain the commitment our nation has made to providing financial security to our elderly and disabled through Social Security.

The Federal Budget Deficit and Surplus
in **Billions** of Dollars: 1985 through 2004



Questions and Answers about Social Security

What is Social Security?

President Franklin D. Roosevelt and Congress created Social Security in 1935 to ensure that every American worker would be guaranteed a source of income upon retirement at age 65. It is often considered the most successful federal program ever created. More than half of all Americans over age 65 were impoverished during the Depression of the 1930s; now 10 percent of seniors live in poverty. About two-thirds of today's elderly depend on Social Security as their primary source of income, and nearly half would live in poverty without it. Six million disabled workers, five million widows, and four million children also receive Social Security benefits.

How is Social Security financed?

Every worker has a portion of his or her earnings withheld from his wages (FICA – Federal Insurance Contributions Act – on your W-2 form). Half of the 12.4% is paid by the worker and half is paid by the employer. In 2005, only the first $90,000 of a worker's earnings is subject to the FICA tax. These funds pay the benefits for current retirees, and the excess is deposited into the Social Security Trust Fund.

What is the Social Security Trust Fund?

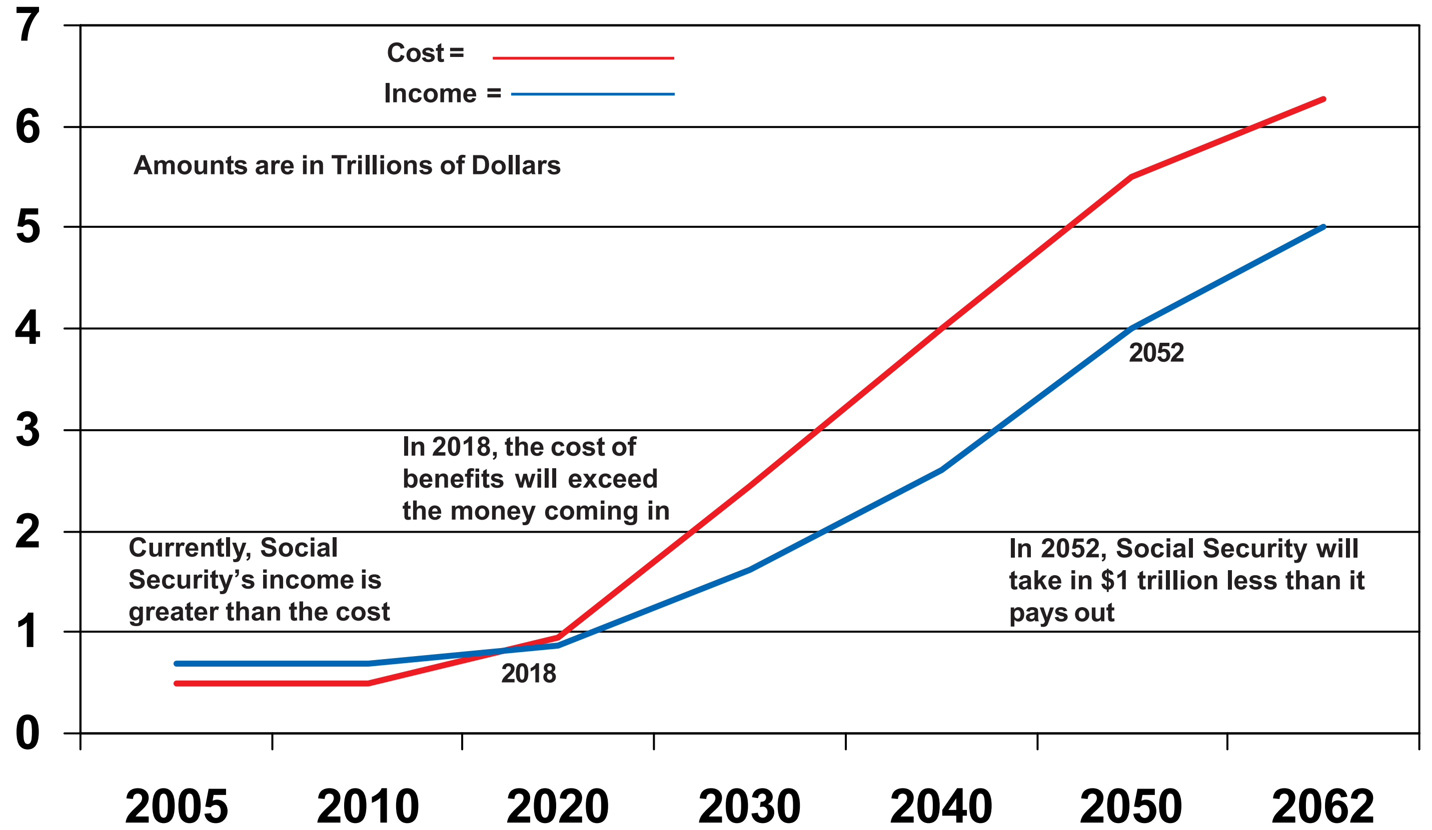
The Social Security Trust Fund is a financial account in the U.S. Treasury. Because American workers have contributed and continue to contribute more money than is used to provide benefits for current retirees, the Fund has accumulated nearly $1.7 trillion in reserves. These funds are invested in interest-earning Treasury bonds that are guaranteed by the U.S. government. In other words, the U.S. government has borrowed money from the Social Security Trust Fund to pay for governmental expenses and must pay back the money with interest, just like it must with any other creditor.

Why does the Social Security Trust Fund invest in Treasury bonds, rather than some other investment that would provide a higher return, like stocks?

Every investment carries risk. If you invest in a home, it could be destroyed by fire. If you invest in a private company with stocks or bonds, the company could fail. In our economic system, greater potential reward carries greater potential risks. Treasury bonds are considered the least risky security investment because they are guaranteed by the U.S. government, the most secure institution in the world. There have been proposals to allow the government to invest a portion of the Trust Fund in higher return financial instruments, but there are concerns about the federal government exercising undue influence over the private sector by owning or lending to private companies.

What is the financial status of the Social Security Program?

The Social Security Administration estimates that in the year 2018, more money will be paid out from the Trust Fund, estimated to then total $5.3 trillion. In order to pay back the Trust Fund, the U.S. government will need to divert tax revenues from other government spending or borrow from other sources, such as Asian investors. According to the Congressional Budget Office, in 2052 the Fund will have less money than is needed to provide 100% of promised benefits. Without changes to Social Security, only about 73% of promised benefits could be paid between 2052 and 2075.



***Source**: Congressional Budget Office*

Adjusting Social Security to Meet Future Needs

Why is there a problem?

Due to several factors, an increasing amount of pressure is being placed on the long-term financial health of the Social Security system. First and foremost, because of advances in health care, people are living (and collecting Social Security benefits) longer. In addition, the largest generation of Americans in history will begin reaching full retirement age in 2011. These two factors contribute greatly to a future anticipated shortfall in funding.

What is the President's plan?

Although he has not yet provided a detailed proposal, the President has announced that he wants to partially privatize Social Security by allowing younger workers to remove up to two-thirds of their personal contribution to Social Security from the system and place that money into private accounts. These private accounts could then be invested in potentially higher return – and riskier – investments than Treasury bonds in which the Trust Fund currently invests.

What would the President's Plan Cost?

The U.S. government would need to borrow an estimated $4.9 trillion over the first 20 years of private accounts to make up for the transfer of funds from the Trust Fund into private accounts so that current retirees would receive their full benefits.

Would the President's plan strengthen Social Security?

No. Creating private accounts would not solve the financial challenges facing the Social Security program and would instead worsen them. Private accounts could potentially move up to 2021 the date by which Social Security could no longer pay full benefits, rather than 2052. The President is also proposing a change in the way that benefits are calculated.

Will my benefits be reduced if the President's plan is approved?

If you are currently over the age of 55, the President claims that his plan would not affect you. However, any changes that add to this nation's debt and weaken the overall Social Security program will affect all Americans. If you are younger than 55, your benefits would be cut by 30 to 46%, according to senior administration officials in press reports. If you choose to open a private account, the President's plan would allow beneficiaries to possibly recoup those lost benefits as long as their investments realize a return greater than the 3% above inflation than the money would have made if it had stayed in the traditional plan, invested in Treasury bonds. For example, at today's inflation rate of 3.26% , your investment would need to realize a return of 6.26% in order for you to recoup a portion of the benefit cut.

What if my investments return less than 3% in a private account?

By choosing to establish a private account, you accept the risk that your investment choices could fail and you would receive less in benefits. If you invested in Enron or other companies that failed in recent years, you already know that the value of stocks and bonds can decline or disappear altogether.

Can I count on Social Security to finance my retirement?

Social Security was never intended to provide all of your retirement income. Benefits are calculated to equal approximately 40% of the average earner's wages, but most experts advise that you should plan to save enough to provide 70% to 90% of your pre-retirement income to maintain your current standard of living at retirement.

Would I be required to have a private account?

The President says that participation would be voluntary. In addition, in order to meet the financial obligations of the Trust Fund, the President's plan requires a cut in benefits for ***all*** future retirees of 30-46% because benefits would be indexed to inflation rather than wages, as they are under the current system.

The President says his plan is just like the Thrift Savings Plan (TSP) for federal employees. Shouldn't I have access to these same benefits?

Federal employees make voluntary contributions to the Thrift Savings Plan ***in addition*** to their contributions to Social Security. I agree that all Americans should have access to a universal savings plan that would supplement, but not replace, the guaranteed minimum benefit provided by Social Security. For those Americans who do not have access through their workplace to a 401(k) program to allow tax-deferred savings for retirement, I believe that the federal government should allow voluntary participation in the TSP or a similar plan. Regardless of workplace programs, all Americans can save for their retirements through tax-deferred IRA or Roth IRA accounts.

How has Social Security been changed in the past?

Over its 70-year history, the Social Security system has been adjusted more than 30 times in order to keep up with the ever changing needs of the American worker. These changes include adding dependents and survivor benefits, annual cost-of-living adjustments, and disabled workers to Social Security. In addition, we have amended the retirement age for reduced benefits to 62, and amended the rules for working past retirement. These changes, however, sometimes come with unintended consequences, such as the creation of a class of retirees known as the "Notch Babies." When changing a program as massive and far-reaching as Social Security, the devil is in the details.

Who are the "Notch Babies"?

The Social Security Amendments of 1977 substantially altered the way Social Security benefits are computed. These changes were effective beginning with people who became eligible in 1979. For retirees, this meant people born after 1916. Many of those born in the 5- to 15-year period after 1916 — so-called "notch babies" — have complained that the changes in the rules caused their benefits to be lower than those of retirees who were born before them. A number of legislative attempts have been made over the years to modify the rules, but none have been successful.

PLANNING FOR RETIREMENT

Know Your Retirement Needs

Retirement is expensive. Experts estimate that you will need about 70% of your pre-retirement income to maintain your standard of living when you stop working. Low-wage earners will need closer to 90% of their pre-retirement income.

Find Out About Your Social Security Benefits

Social Security pays the average retiree about 40% of pre-retirement earnings. Call the Social Security Administration at 1-800-772-1213 for a free Personal Earnings and Benefit Estimate Statement (PEBES), which you should be receiving annually.

Learn About Your Employer's Pension or Profit-Sharing Plan

If your employer offers a plan, check to see what your benefit is worth. Most employers will provide an individual benefit statement if you request one. Before you change jobs, find out what will happen to your pension.

Learn what benefits you may have from previous employment. Find out if you will be entitled to benefits from your spouse's plan. For a free booklet on private pensions, call the Department of Labor at 1-866-444-3272.

Contribute to a Tax-Sheltered Savings Plan

If your employer offers a tax-sheltered savings plan, such as a 401(k), sign up and contribute all you can. Your taxes will be lower, your company may match your contribution, and automatic deductions make it easy. Over time, deferral of taxes and compounding of interest make a big difference in the amount of money you will accumulate.

Put Money into an IRA

You can put $4,000 a year ($4,500 if you are over 50 in 2005) into an Individual Retirement Account (IRA) and delay paying taxes on investment earnings until retirement age. If you don't have a retirement plan (or are in a plan and earn less than a certain amount), you can also take a tax deduction for your IRA contributions. IRS Publication 590 contains information about IRAs. For information, order Internal Revenue Service Publication 590 by calling 1-800-829-3676.

Don't Touch Your Savings

Do not dip into your retirement savings. You'll lose principal and interest, and you may lose tax benefits. If you change jobs, roll over your savings directly into an IRA or your new employer's retirement plan.

Start Now, Set Goals, and Stick to Them

Start early. The sooner you start saving, the more time your money has to grow. Make retirement saving a high priority. Devise a plan, stick to it, and set goals for yourself.

Diversify Your Investments

How you save can be as important as how much you save. Inflation and the type of investments you make play important roles in how much you will have saved at retirement. Know how your pension or savings plan is invested.

Source: *U.S. Department of Labor*

So what do we do?

Creating private personal acounts is only one way to modify Social Security. When Congress has previously modified Social Security to extend its solvency, it has relied on incremental reforms instead of large-scale programmatic changes. Lifting the cap on earnings subject to the Social Security tax, increasing the retirement age, and limiting the payment of benefits to beneficiaries over retirement age who are still working are among the proposals that would stabilize Social Security for generations to come.

I welcome a full and open discussion of all options to extend the life of Social Security as long as the following core principles are met:

1. Preserve the current system for today's seniors and near-retirees;
2. Maintain Social Security's safety net for the poor, disabled, widows and orphans;
3. Promote private savings outside of Social Security;
4. Be fair to all beneficiaries, including the middle class, women and younger generations.

On my Web site, I have links to many additional sources of information that can provide you with information about Social Security and retirement. Please go to http://kanjorski.house.gov If you do not have Internet access, please call one of my offices and my staff will mail you information.

Help with managing your money

The Federal Consumer Information Catalog offers these and other free and low-cost publications to help you manage your money:

- **Top 10 Ways to Prepare for Retirement**
- **66 Ways to Save Money**
- **401(k) Plans**
- **Building Financial Freedom**
- **Investors' Bill of Rights**

To request a copy of this free catalog, call Congressman Kanjorski's office or visit www.pueblo.gsa.gov

How to reach Congressman Kanjorski:

The Stegmaier Building
7 North Wilkes-Barre Blvd., Wilkes-Barre, PA 18702
(570) 825-2200
(570) 825-8685 (fax)
546 Spruce St., Scranton, PA 18503
(570) 496-1011
(570) 496-6439 (fax)
102 Pocono Boulevard, Mount Pocono, PA 18344
(570) 895-4176 (by appointment only)
2188 Rayburn Building, Washington, DC 20515
(202) 225-6511
(202) 225-0764 (fax)
Toll-Free Helpline: (800) 222-2346
http://kanjorski.house.gov
E-mail: paul.kanjorski@mail.house.gov