Committee On Finance
Max Baucus, Ranking Member

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Floor Speech of U.S. Senator Baucus Urging Support for Amendment to Protect Social Security

(WASHINGTON, D.C.) Today, U.S. Senator Max Baucus delivered the following floor speech stating his support of an amendment to the budget resolution sponsored by Senator Bill Nelson (D-FL). The amendment will be offered as a sense of the Senate which is defined as legislative language offering the opinion of the Senate, but does not make law. The amendment states "Congress should reject any Social Security plan that requires deep benefit cuts or a massive increase in debt." Senator Baucus' floor statement follows:

Floor Statement of U.S. Senator Max Baucus on Social Security

"Mr. President, I'm from Montana. And Montanans are practical people. Let me speak practically, today, about Social Security. Here's what Montanans are telling me about Social Security:

A man from Helena, Montana, put it this way: 'I have been an employee and an employer for 55 years. The Social Security system is the only solid, dependable program that [I] and everyone that I have been involved with can rely on.'

And Laura from Baker, Montana, wrote: 'It seems to me that our Social Security system has worked well for many, many years. I cannot understand the President's desire to reform it.'

Well, Mr. President, when it comes to trying to understand why the President wants to privatize Social Security, Laura is not alone. So let me talk a little bit today about the President's plan to privatize Social Security, and what it would mean in practical terms.

The first thing we have to do is put aside the notion that privatizing Social Security has anything to do with strengthening Social Security and preserving Social Security for the long run. It does not. Social Security's actuaries, the Congressional Budget Office, all the experts agree: Privatizing Social Security does not improve the solvency of Social Security. It makes it worse.

Bobby from Eureka, Montana, put it this way: 'I strongly oppose President George Bush's proposal to privatize Social Security or any part of it. I feel this is only the first step to dismantling Social Security all together.'

And you know, because the private accounts have nothing to do with solvency, many of us are wondering whether Bobby may just be right. So we have to start with the proposition that

President Bush is looking somewhere else besides private accounts for the real answer to extending Social Security's solvency.

To be candid, none of us know exactly how the President wants to pay for extending Social Security solvency. In his State of the Union Speech, he mentioned 5 possible ways:

One: 'limiting benefits for wealthy retirees';
Two: 'indexing benefits to prices rather than wages';
Three: 'increasing the retirement age';
Four: 'discouraging early collection of Social Security benefits';
And five: 'changing the way benefits are calculated.'

All those options that the President mentioned have one thing in common: They all cut benefits. But even if we do not know for sure how the President wants to cut Social Security benefits, the administration has not been all that subtle about their druthers. For months now, President Bush and many in his administration have hinted that their preference is one of the plans put forward by the President's Commission on Social Security. That plan would divert Social Security payroll taxes into new private savings accounts. As I said, that has nothing to do with solvency. I'll come back to that later.

But that plan would also deeply cut Social Security benefits for future beneficiaries by changing the way benefits are calculated. It would cut benefits by — in the President's words — "indexing benefits to prices rather than wages."

Let me explain that. Under the current law, when the government calculates a worker's initial Social Security benefits, the government adjusts the worker's past earnings for the growth of wages in the economy. Under the Commission's plan, the government would adjust the worker's past earnings for the growth in prices.

Now most people do not realize it, but wages grow faster than prices. People see prices rising all the time, so folks do not always focus on how their wages generally keep up. But on average, over time, wages grow faster than prices.

That is largely because workers today are more productive than workers used to be. So workers today can command higher wages — even after adjusting for inflation — than they used to.

Adjusting initial benefits for the growth in wages makes sense. It makes sure that Social Security will replace roughly the same share of future retirees' incomes as it did for previous generations of retirees.

The Commission's plan to move from wage indexing to price indexing means that initial benefits for retirees in the future would gradually start to get smaller than they would be under current law. And because these reductions in benefits would accumulate over time, each new group of retirees would get that much more of a cut in their benefits, relative to what the current law promises them.

Under current law, succeeding generations of retirees can expect Social Security to replace a relatively constant share of their income. On average, Social Security promises to replace about 40 percent of income, year after year, as represented by the yellow line on this chart.

But adopting the Commission's plan would mean that the share of income Social Security replaced would go down. That's the red line on this chart. Over time, these cuts would become very deep. For workers now in their mid-30s, benefits would be cut by about a quarter. For someone born about now, one of our children or grandchildren, benefits would be cut in half. That is not the legacy that we should leave to our children.

If the Commission's plan had been in place when Social Security began to pay benefits in 1940, benefits for a worker with average earnings would be 60 percent less than they are today. Under current law, a worker with average wages who retires in 2005 will get a $1,278 monthly Social Security check. But had the Commission's plan been in effect since 1940, that average worker would get a $515 monthly Social Security check. That's $515 a month instead of $1,278 a month. And remember, for one-fifth of seniors, Social Security is all of their income. No matter where you live, it is not easy to live on $515 a month.

That kind of a cut in benefits would mean that a lot more seniors would be living in poverty. Had the Commission's plan been in effect since 1940, about 7 million more seniors would live in poverty today.

Under current law, 3.6 million seniors still live in poverty. But had the Commission's plan been in effect since 1940, more than 10 million seniors would live in poverty now. But you might say, 'I just won't participate in the private accounts. Then I won't have my benefits cut.'

Guess again. Under the Commission's plan, these cuts would apply even if you did not choose to participate in the private accounts. That may not seem fair to millions of Americans. Will these cuts apply to people with disabilities and survivors? Once again, to be candid, none of us know for sure. But the Commission's numbers showed savings as if people with disabilities and survivors were included.

We are talking about widows and orphans. Listen to the words of Linda from Great Falls, Montana. She said: 'My father died when I was 13 years old. My mom went to work as a bookkeeper making a little over $200 a month. Our entire lives changed, and without the assistance of Social Security benefits, I would never have been able to attend college.' Social Security is a vital lifeline. And we have to be very careful about how we change it.

Now, in addition to the cuts about which I have been talking so far, the President's plan includes a second set of cuts, for anyone who signs up for the privatized accounts. Under the President's plan, when workers retired, their Social Security benefits would be further reduced by:

First, all the contributions to the worker's private account;

Plus, second, the interest that those contributions would have earned had they earned a 3 percent return, above inflation. Some people call this a 'claw-back.' I call it a privatization tax. Under current law, a worker born in 1990, who retires in 2055 would get $23,300 a year from Social Security. The first cut — the cut due to price indexing instead of wage indexing — would cut the worker's Social Security payments to $13,104 a year. And then the second cut — the cut due to the privatization tax — would cut the worker's Social Security benefits further to $3,276 a year.

Now retirees would get to keep their private account. But for workers with typical investment portfolios, their Social Security checks would lose an amount equal to 70-to-100 percent of the value of their private account. That's the functional equivalent of a 70-to-100 percent privatization tax on those accounts.

The proponents of privatization tell us that these benefit cuts will be made up by the income that seniors will get from the private accounts. But the Congressional Budget Office projects that even with the income from the private accounts, workers with average earnings will be back to where they were — at $13,104.

Thus, after all the shouting, workers who are now 25 to 35 years old will have their total retirement income — their Social Security benefit plus their income from their private account — cut by about a quarter below what current law promises. And those with average earnings born in this decade who retire at age 65 will have their total retirement income cut in half. That's all based on CBO's assumption that the private account will get a return of 3 percent over and above inflation. It could get more. But then it could also get less.

Let me remind people that what goes up may come down. In the late 1920s in America, people might have expected their stocks to go up 3 percent a year, after inflation. But stocks went down nearly 90 percent between 1929 and 1932. From its 1929 high of 381, the Dow Jones Industrial Average fell to a trough of 41 in 1932.

Now under the President's plan, what would happen to your Social Security benefit if the stock market crashed? You would still need to pay the full privatization tax of all the contributions to the worker's private account plus 3 percent interest, above inflation. That's even if you did not earn that much.

So under the President's privatization plan, your Social Security check could be reduced by more than what you had in your private account. The only thing that would be guaranteed would be $3,276 a year. And I challenge anyone to explain to me how they could live on $3,276 a year.

As Frederick from Great Falls, Montana, asked: '[I]f the bottom falls out of the market, who takes care of them then?'

Now some may say that we cannot sustain Social Security's current promises anyway. But the Commission's cuts would be deeper than if we did absolutely nothing to Social Security. If we did nothing to extend the life of Social Security — and no one is recommending that — then in 2052, we would still be able to pay 80 percent of promised benefits. In contrast, under the Commission's plan, benefits would be cut before 2052, and benefits would be cut deeper than that in 2052 and after.

For a typical worker born in 1990, current law promises Social Security benefits of $23,300. Even if we do nothing — and I do not advocate that — Social Security would be able to pay that worker $18,100 a year. The Commission's plan would cut that to $13,104. The President's privatization tax would cut the guaranteed Social Security benefit down to $3,276. And in all likelihood, the worker would get a total package of benefits — their Social Security plus their private account — in the neighborhood of $13,104.

That's why the President's privatization plan just does not make any sense. Just from the perspective of typical beneficiaries, it would leave them worse off than if we did nothing at all. And that is before we take into account the $5 trillion in new borrowing that the President's plan would require in its first 20 years.

Jack from Kalispell, Montana, wrote me of his suspicion. He wrote: 'President Bush is proposing a gimmick to take attention away from plans to reduce future benefits. I believe the federal government should solve its own solvency problems and either stop borrowing from the Social Security trust fund or actually pay back its loans with market rates for interest.'

Now Jack may have a point. The private accounts are a gimmick. And the benefit cuts are bad enough that anyone associated with them might want to divert your attention away from them.

The larger reason why these cuts are so deep is because the Commission's plan would place all the burdens of securing solvency on benefit cuts. And within benefit cuts, the Commission's plan would place all the burdens of securing solvency on today's young people and future generations. That's the effect of the switch from wage indexing to price indexing. And that is not fair.

The President's plan would change Social Security from a guaranteed $23,300 earned benefit to a little $3,276 benefit plus a gamble. No wonder people wonder whether the President's plan is more about, as Bobby from Eureka, Montana, put it, 'only the first step to dismantling Social Security all together.'

That's why Democrats have called upon the President to disavow his plan for private accounts funded out of Social Security. We ask him to do so, because we want to be sure that these private accounts are not, in Bobby's words, 'the first step to dismantling Social Security all together.'

Democrats want to address Social Security's solvency. We want to strengthen and protect Social security for the future. But in order to do that, we need reassurance that the changes that we agree to will strengthen Social Security, not dismantle it. The President needs to disavow privatizing Social Security. He needs to state that he does not want to dismantle Social Security, before we can agree how to fix it.

Mary from Belgrade, Montana, summed it up pretty well. She wrote: 'The American Social Security system is one of the most cost-effective pension plans ever devised. It costs a pittance to administer, it is thoroughly honest, and it works flawlessly. 'Privatizing' it will almost certainly ruin it. It would add hugely to the crushing burden of national debt, it would mean smaller retirement pensions for millions of retiring Americans, and it would cost twenty to thirty times more to administer. Congress has a duty to the American people to protect this popular, inexpensive, highly effective program. I implore you, Senator Baucus, to tell the President you oppose privatization, and to legislate only a plan that will fix long term problems without changing the basic structure and function of our Social Security system.'

Mary has it right. We need to get beyond plans to privatize Social Security. And once we do, we can get about the business of 'fix[ing its] long term problems' and securing it for generations to come.

That's why I will support the amendment by the Senior Senator from Florida, Senator Bill Nelson, on Social Security, when he offers it later this week. And that's why I will urge my Colleagues to support it, as well. We want to keep Social Security, in the words of that man from Helena, 'the only solid, dependable program that [we] can rely on.'

We want to keep it, in the words of Laura from Baker, Montana, a 'system [that] has worked well for many, many years.' And we want to keep it a system that can work well for 'many, many years' to come."

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