United States Senate

WASHINGTON, DC 20510

February 25, 2005

National Governors Association
Hall of States
444 N. Capitol St.
Washington, DC 20001

Dear Governors:

Welcome to Washington! Many important issues are being debated this year, both in Washington and across the country. We would like to take this opportunity to discuss one in particular: Social Security. Specifically, we would like to ask for your help in preserving the benefits and the sound structure of the current system.

Social Security is much more than simply an old-age pension. It is an insurance program which was designed to preserve individual dignity and self-reliance. As described by Franklin Roosevelt when he signed the Social Security Act in 1935, the program was created to "give some measure of protection to the average citizen and to his family." Social Security is unique: in the event of death, disability, or retirement, it provides a guaranteed benefit to an entire family reflective of the participant's standard of living. And since it is a guaranteed benefit neither the participant nor his or her family needs to worry that the benefits will ever cease. No other system more effectively protects against destitution or guarantees security and dignity to retirees, disabled employees, and employees' families.

Social Security provides the core retirement and assistance income for millions of Americans. In December, 2004, for example, 46,688,000 individuals received Social Security benefits. Of those, approximately 33,000,000 received retirement benefits, 6,730,000 received survivors' benefits, and 8,550,000 received disability benefits. Close to 4,000,000 of the recipients were children.

Although Social Security must be strengthened for the long term, we believe that it can be done without harming the current system. The cornerstone of President Bush's Social Security proposal is the creation of private accounts funded by a diversion of payroll taxes. This proposal does nothing to secure the future solvency of the Social Security system, however, and actually makes the program's long-term financial challenges worse. As a result, President Bush would also have to cut benefits by one-third or more, even for those employees who decide not to participate in private accounts. Those who do participate in the private accounts would face an additional "privatization tax" which could exceed 70 percent of the value of their account.

The budget submitted to Congress for fiscal year 2006—and its projected deficit—does not include the cost of creating private accounts. Even Vice President Cheney confirmed that privatization would actually cost money, noting that the federal government would have to borrow $754 billion over the next 10 years and "trillions more after that" in order to finance the cost of the President's privatization plan. In fact, within the first 20 years of the President's plan, debt would increase by approximately $4.9 trillion, an amount greater than the entire U.S. publicly-held debt today. This increase in debt could well have broad and harmful effects on the economy and on the ability of states to borrow money. In addition, financial markets will demand that the federal government restore some fiscal discipline, and when that happens, the budget axe is likely to fall on Medicaid, education, and other important funding sources for state services. At the end of the day, under the President's plan, states are likely to end up bearing even greater financial burdens than they face today.

Social Security currently provides a substantial stream of funds to your constituents—benefits that President Bush's plan would ultimately reduce significantly. In 2002, for example, nine in ten Americans over age 65 received Social Security benefits, and Social Security provided nearly 40 percent of the income of Americans in that age group. In that year, more than $446 billion flowed to the states through Social Security benefits.

Individuals with lower incomes rely more heavily on Social Security, as Social Security benefits constituted 80 percent of the income of those in the bottom two-fifths of the income distribution. Indeed yesterday, the Center on Budget and Policy Priorities released data which shows that Social Security has lifted 13 million seniors above the poverty line. This data is broken down state-by-state and is attached for your reference. This data reinforces the fact that benefit cuts will greatly impact the quality of life of seniors in your states. Moreover, reductions in guaranteed Social Security benefits for this low-income population could lead to pressure on states to help make up the difference to prevent elderly constituents from falling into financial distress when they retire.

More specifically, White House officials have indicated that President Bush's plan could include a proposal to lower your constituents' benefits by changing benefit indexing from a wage index to a price index. Currently, future workers are projected to experience wages that grow at a greater rate than the cost of living. If benefits are indexed to prices instead of wages, increases in the country's standard of living would no longer be reflected in a retiree's benefits. For example, according to the Congressional Research Service, under the current system, an individual retiring in 2005 would receive 42% of his pre-retirement income in Social Security benefits. If benefits had been indexed to prices rather than wages since the program began in 1940, that same individual would receive only 17% of that income. Even if the President does not switch to so-called "price indexing," benefit cuts would still be required by his plan.

We urge you to join us in opposing any proposal that would undermine the importance of the Social Security program. We look forward to working with you to strengthen Social Security.

Sincerely,

Max Baucus

Paul S. Sarbanes

Ted Kennedy

Byron L. Dorgan

Carl Levin

John F. Kerry

Dick Durbin

Mark Dayton

Effect of Social Security on Poverty Among Seniors

	Percent below the federal poverty line		
	Excluding Social Security	Including Social Security	Number lifted above Poverty line by Social Security
Persons age 65 and older			
US Total	46.8%	8.7%	12,896,000
Alabama	53.1	13.2	222,000
Alaska	31.7	5.9	11,000
Arizona	43.2	6.8	235,000
Arkansas	58.1	11.8	180,000
California	39.8	7.9	1,065,000
Colorado	42.9	7.3	151,000
Connecticut	37.0	5.0	157,000
Delaware	40.9	6.0	34,000
District of Columbia	41.8	16.3	17,000
Florida	50.2	8.7	1,116,000
Georgia	47.8	11.8	273,000
Hawaii	27.8	5.6	35,000
Idaho	48.0	5.1	63,000
Illinois	47.6	7.2	569,000
Indiana	51.5	8.1	341,000
Iowa	52.9	7.4	179,000
Kansas	46.1	6.3	150,000
Kentucky	54.6	10.7	216,000
Louisiana	49.5	12.6	192,000
Maine	56.0	7.2	97,000
Maryland	40.1	9.0	196,000
Massachusetts	46.9	8.4	316,000
Michigan	48.6	8.0	461,000
Minnesota	43.2	7.7	171,000
Mississippi	53.3	15.8	120,000
Missouri	43.8	5.8	249,000
Montana	50.6	7.8	55,000
Nebraska	47.0	8.4	79,000
Nevada	40.6	6.0	82,000
New Hampshire	43.6	4.9	63,000
New Jersey	45.6	6.2	456,000
New Mexico	47.2	13.4	78,000
New York	44.4	8.4	872,000
North Carolina	50.1	12.1	370,000
North Dakota	55.9	10.3	39,000
Ohio	46.2	6.6	563,000
Oklahoma	48.8	10.7	171,000
Oregon	47.8	4.7	168,000
Pennsylvania	50.2	6.9	737,000
Rhode Island	49.8	5.6	70,000
South Carolina	49.2	11.6	194,000
South Dakota	51.7	8.9	44,000
Tennessee	54.7	12.6	265,000
Texas	48.5	12.5	757,000
Utah	37.6	8.6	51,000
Vermont	54.7	7.4	35,000
Virginia	41.8	9.1	264,000
Washington	44.7	7.2	251,000
West Virginia	58.1	9.3	137,000
Wisconsin	44.8	7.1	253,000
Wyoming	50.4	6.4	26,000

Note: Income is family cash income after taxes plus EITC and certain non-cash benefits (food, housing, and energy assistance). Figures are three-year averages for 2000 through 2002.

Source: CBPP tabulations of the Current Population Survey for March 2001, 2002, and 2003.