# SEN. JACK REED'S FLOOR STATEMENT
# ON SOCIAL SECURITY and DEBT 04-07-05

I rise today to express my deep concern about the negative impact that the President's plan to carve out private retirement accounts from Social Security will have on our mounting federal debt, the solvency of the Social Security program, and our nation's economic prosperity over time.

President Bush's plan to create private accounts within Social Security would lead to a massive increase in federal debt, weaken the solvency of Social Security, and fail to increase national saving in preparation for the retirement of the baby boom generation.

In addition to the private accounts plan the President proposed in his State of the Union address, the Administration also favors setting initial retirement benefits to the growth in prices rather than wages, and if this change were added to the President's plan, it would result in large cuts in guaranteed benefits for everyone – not just for those who choose to open a private account.

To illustrate these points, I would like to go through a set of charts prepared by the Democratic Staff of the Joint Economic Committee, where I have the honor of serving as the Ranking Democrat. These charts and a new report entitled *The Negative Impact of Private Accounts on Federal Debt, Social Security Solvency, and the Economy*, were released today by JEC Democrats and are available at www.jec.senate.gov/Democrats.

**CHART 1:** The Administration estimates that the President's privatization plan, which would not go into effect until 2009, would add $754 billion to the public debt in the current budget window (2006-2015). However, an estimated $1.4 trillion would be added in the first 10 years of implementation (2009-2018), followed by another $3.5 trillion in the second decade (2019-2028) – for a staggering total of nearly $5 trillion in new debt over the first 20 years the plan is in place. Adding price indexing of initial retirement benefits to the plan would do little to offset that cost.

**CHART 2:** Those increases in debt are not simply transition costs that go away. Debt would continue to increase relative to the size of the economy, reaching 36 percent of gross domestic product (GDP) in 2060. To put this in perspective, federal debt held by the public was 37 percent of GDP at the end of 2004. Thus, starting from today's level, private accounts would double the size of the debt to over 70 percent of GDP – a level not seen since the end of World War II.

**CHART 3:** Diverting payroll tax receipts into private accounts instead of putting them into the Social Security Trust Fund would reduce trust fund assets by about $5 trillion in the first 20 years. This is a severe blow to Social Security's solvency that would move up the date the trust fund could no longer pay full benefits by about 12 years, to 2030 from 2042. Clearly, this is not the direction we want to be going.

**TABLE 1:** Simple arithmetic shows that the President's numbers just don't add up to fixing Social Security. The President's private accounts plan would add another $1.5 trillion in present value – meaning the amount of money that would have to be on hand today to cover the shortfall – to the current estimated shortfall of $3.7 trillion over the 75-year planning horizon used by the Social Security Trustees.

That $1.5 trillion is the difference between the $4.3 trillion the trust fund would lose from payroll tax revenues diverted to private accounts and the $2.8 trillion the trust fund would save from the "privatization tax" that reduces guaranteed benefits for those who choose private accounts.

If we adopt the President's private accounts proposal, we would turn a $3.7 trillion shortfall into a $5.2 trillion shortfall.

**CHART 4:** Federal Reserve Chairman Alan Greenspan recently testified that the best way to meet the fiscal challenges of the baby boom retirement is to raise national saving and he acknowledged that the President's private accounts would not do that. In fact, the new private saving created in private accounts would be completely offset by the increased government borrowing to fund those accounts, leaving no net increase in national saving.

To the extent that people treat their private accounts as new saving and reduce their contributions to 401(k)s, IRAs, and other saving plans, the net increase in private saving would be smaller than the increase in government borrowing, and national saving would actually fall. Once again, this is not the direction we want to be going.

**CHART 5:** Although he has not offered a plan to restore Social Security solvency, the President has called the plan developed by his Commission to Strengthen Social Security a "good blueprint" for reform. That plan achieves solvency through large cuts in traditional Social Security benefits produced by changing the way initial retiree benefits are calculated – not through gains from private accounts.

The Social Security Administration estimates that the Commission's proposal to substitute price indexing for wage indexing in determining initial benefits would cut guaranteed benefits by 46 percent for average-earners retiring in 2075.

The Congressional Budget Office estimates that private accounts would not make up for the cuts in guaranteed benefits. Combined, the reduced guaranteed benefit and the likely private account benefit would be 45 percent less than the benefits promised under current law for an average-earner retiring in 2065; they would be 27 percent less than the benefits that could be paid from projected trust fund revenues in that year under current law.

The President's plan for private accounts would increase federal debt, weaken Social Security solvency, and not increase national saving. If combined with the benefit cutbacks President Bush seems to favor, future generations would face the double burden of large cuts in their guaranteed Social Security benefits and paying down the higher federal debt.

I think the American people agree that this is clearly not the direction we want to be going.

I commend my Democratic colleagues from North Dakota and Florida for offering Sense of the Senate amendments today that go to the heart of my concerns. Congress should reject any Social Security plan that requires deep benefit cuts or a massive increase in debt, and we should not even entertain any new tax cuts or mandatory spending without offsets until Social Security is made solvent for 75 years.

I want to work with President Bush to promote personal wealth and saving through investment, but let's restore Social Security's solvency first. I urge the President to take private accounts off the table so that we might achieve bipartisan agreement to strengthen Social Security for the long-term and enhance the retirement security of all Americans.

Thank you, Mr. Chairman.  I yield the floor.