Statement of Kenneth S. Apfel
Professor of the Practice
Maryland School of Public Policy
The University of Maryland

Testimony to the US Senate Special Committee on Aging
"Social Security: Keeping the Promise in the 21st Century"
June 17, 2009

Mr. Chairman and Members of the Committee, it is an honor to be asked to testify today on Social Security in the 21st Century. It is a particular delight to be back in the Hart Senate Office Building for this hearing. I worked in this building for more than a decade, including in 1983 -- the last time Congress made major modifications to our Social Security system. I was also in this building many, many times during my years as Commissioner of the Social Security Administration. I know how hard you all work for the American people. It is my sincere hope that we will all be part of the next chapter in strengthening the Social Security program for current and future generations.

There are three issues I would like to address today. First, I'd like to discuss how Social Security has evolved over the past three generations. Second, I'll discuss how the program provides essential protections for millions, but that many people still face major economic challenges. Lastly, I'll discuss the need for Social Security to continue to evolve in the future to meet these challenges in light of changing demographic and economic conditions.

1. Social Security Evolution

Our Social Security system has been the bedrock of financial support for millions of Americans for nearly 75 years. Past Presidents and Congresses have worked together time and again over the years to help build our current system. I remember Senator Bill Bradley's statement made during the 1983 Social Security reform debate that Social Security is the best expression of community that we have in America. This is still true today, and I believe will be true long into the future.

Social Security's core framework has essentially remained the same as instituted three generations ago. The program, however, has evolved considerably over the years to meet changing demographic, human and economic needs.

What Franklin Roosevelt helped to create - to use his words - was "some measure of security" in old age. The signing of the Social Security Act in 1935 represented a dramatic departure in the role of government in providing a foundation of economic support for older Americans. The key elements of the social security system that were adopted in the 1930s and 1940s have remained largely intact - intergenerational financing through payroll taxes paid by workers, a relatively modest and progressive benefit structure paid to workers and their dependents, with excess tax revenues placed in a trust fund to pay future benefits.

While the core framework of Social Security remains basically the same as three generations ago, the program has evolved to meet changing human needs. In terms of the scope of benefit protections, the original act in 1935 provided only very modest retirement coverage for workers. By 1939 survivor benefits were added, and in the 1950s during the Eisenhower Administration and under the congressional leadership of Lyndon Johnson, disability benefits were added. During the Nixon Administration, cost of living adjustments were added so that benefit payments would grow with inflation, so that people could count on the purchasing power of their benefits staying constant over a lifetime. During the Eisenhower and Kennedy Administrations, early retirement was permitted, so that workers could start receiving benefits at age 62 rather than 65.

In the late 1970s, there was a growing understanding that demographic and economic changes were taking place in the United States that placed strains on the system. In 1977, benefit growth was slowed and in 1983, a series of changes were enacted to stabilize the system. Taxes were raised, the retirement age was increased, cost of living adjustments were delayed and benefits were modestly curtailed. Lastly, during the Clinton Administration, the Social Security retirement earnings test was repealed for most of the elderly population to help encourage older persons to work later in life.

It s clear that Social Security has evolved over time to meet the needs of the American people. Even with all the expansions and restraints adopted over the past three quarters of a century, the system still remains remarkably successful in addressing FDR's goal of providing "some measure of security".

2. Social Security Impact

Social Security provides the foundation of support for about one in six Americans—with benefit protections available over a lifetime, no matter how long one lives.

Average Social Security benefits only provide basic security. The benefit level for the average single worker is currently about $14,000 a year. The poverty level is now about $11,000 a year. According to the Economic Security Standard developed by the Wider Opportunities for Women, minimal living costs for a single older American living alone in rental housing is about $20,000 a year. It is clear that our current Social Security benefit protections provide only a very modest foundation of support in retirement.

While benefits are modest, for most Americans the value of Social Security is the biggest accumulation of dollars they will take into retirement. According to a recent National Academy of Social Insurance study, a 65-year old with Social Security benefits of about $1,100 a month who wanted to buy a guaranteed income of that size - with payments that go up with the cost of living and to continue for a widowed spouse - would need to pay an insurance company about $225,000 for that level of protection.

Social Security is without a doubt the crown jewel of American anti-poverty policy, and it is hard to overstate its importance. Social Security lifts 13 million elders out of poverty. Without those monthly benefit payments, about half of all seniors in America would be living in poverty.

Social Security is also America's Family Protection Plan. About one third of beneficiaries are severely disabled workers, their spouses and children, or the surviving family members of workers who have died. Over a quarter of today's 20 year olds are estimated to become disabled before retirement. According to the NASI study, Social Security is the equivalent of a $400,000 disability insurance policy, and the Social Security survivor benefit is the equivalent of a $450,000 life insurance policy for a young family.

About 6.5 million children under 18 – or nearly 9 percent of all U.S. children – received part of their family income from Social Security in 2005. About 1.3 million of these children were lifted out of poverty by Social Security benefits.

Social Security is particularly important to retirees in communities of color. According to the National Academy of Social Insurance study:

- Among all beneficiaries 65 and older, 42% of single persons and 22% of married couples relied on Social Security for almost all (90% or more) of their income in 2006.

- Among African-Americans, the figures were 54% for single persons and 33% for married couples.

- Among Latinos, the figures were 62% for single persons and 37% for married couples.

- Among Asian Americans and Pacific Islanders, the figures were 55% for single persons and 27% for married couples.

- Among Indians and Alaskan Natives, the figures were 61% for single persons and 25% for married couples.

Social Security is the majority source of income for more than three quarters of non-married aged women beneficiaries, and is almost all income for more than two of every five non-married aged women.

The table attached to my testimony developed by the Social Security Administration and the National Academy of Social Insurance highlights the importance of Social Security as a source of income for older Americans. Social Security is the main source of income for about two thirds of older Americans, and nearly the only source for a third of older Americans.

We know that many individuals are increasingly relying on individual savings for retirement security, given the shift of our private pension system away from defined benefits. Given the continued shift of retirement risks away from employers and toward individuals, the importance of that monthly inflation-protected Social Security benefit – something that can be counted on over a lifetime -- becomes all the more important, particularly in these troubling economic times.

We all are painfully aware of the strains that we are now experiencing in the other "legs" of the elderly income stool. Retirement savings accounts have shrunk by 40% over the past year, private defined pensions are shrinking and are under unremitting stress, and the unemployment rate of older workers has increased significantly. These changes, coupled with the erosion of employer provided retiree health plans, the increases in Medicare premiums and the cost of health care all place growing importance on Social Security as a source of income that can be counted on.

While it is true that Social Security provides essential protections for Americans, it is also true that millions of beneficiaries still live life on the edge. According to NASI studies, those age 65 and older who are poor or near poor - with family incomes below 125% of the poverty line - include 25% of unmarried women, 26% of black men and 36% of black women, 27% of Hispanic men and 31% of Hispanic women, and 18% of Asian men and women. Among persons age 80 and older, those with income below 125% of the poverty line include 28% of unmarried women, and 46% of black women and 37% of Hispanic women. While we can and should applaud our prior Social Security accomplishments as a nation, we need to be very clear that we still face real challenges in providing an adequate benefit structure for vulnerable populations. We still have a ways to go. Our Social Security system needs to continue to evolve, as it has for the past 75 years, to meet the nation's needs.

3. Social Security in the 21st Century

The last point I would like to address is this -- the need for Social Security to continue to evolve to meet changing human needs in light of changing demographic and economic conditions. Almost all the discussion over the past 16 years has been focused on financing Social Security. We need to be clear that we face twin challenges that both need to be addressed: the solvency challenge and the benefit adequacy challenge.

On the solvency challenge, I've said for years that Social Security clearly faces a long-term and manageable problem, and that it's a challenge that we should face up to sooner rather than later. The Social Security financing shortfall is manageable without drastic changes. A doubling of the senior population will certainly place strains on financing Social Security, but it's certainly not Armageddon. According to projections by the Social Security Trustees and the Congressional Budget Office, the Social Security trust fund will not be exhausted for decades, and the system will not be "bankrupt" after that time. Social Security revenues will still be sufficient to pay between 70 percent and 80 percent of today's benefit commitments. Social Security will be there in the future.

A package of tax increases and modest reductions in the growth of benefits phased in over the next half century is what is needed to resolve the solvency challenge.

A related solvency question is whether the privatization of Social Security will help to solve the long-term Social Security shortfall. Absolutely not. Taking payroll tax revenues out of Social Security to create private accounts makes the long-term financing problem bigger, not smaller. Unless future benefits are drastically curtailed, privatization only makes the financing problem worse. Future benefit commitments will most likely have to be sharply curtailed if we privatize parts of Social Security.

With privatization, a growing share of retirement income will be based on the returns of the market. Certainly stock market investments can lead to high returns over time. We all know from personal experience, however, that what goes up also sometimes comes down. Retirement savings has declined by about 40% over the past year. With privatization, trying to retire in a time of down market conditions can be a very risky proposition. And trying to live in retirement on your retirement savings in a time of down market conditions can also be very risky.

There has been much debate over how many people will end up winners and how many will end up losers under a privatization scheme. Yale economist Robert Shiller predicts that about one third to two thirds of workers may be losers under privatization plans. I am not an expert in this area, but it is clear to me that there will be losers, and we won't know for sure how many would end up losers for decades to come, after we see how the markets actually perform.

It is difficult to come to terms with the real life implications of these policies. Let me provide an example. During my years as Commissioner, I met the head of Chile's privatized system during a time of steep interest rate reductions in Chile. At the time, he was publicly urging older workers to delay retiring until the economic conditions improved so workers would not be forced into receiving inadequate annuities in retirement. This senior government official was urging older people to keep working until the markets came back.

Do markets bounce back quickly? Sometimes they do. And sometimes it takes many, many years for markets to come back. The problem, of course, is that we can't predict future market conditions. If we privatize a part of our Social Security system, we would find ourselves some day in the same situation as Chile. Frankly, I would hate to see future U.S. Social Security Commissioners urging America's older workers to "just keep working until the markets come back." Social Security ought to represent a foundation of support that can be counted on in retirement no matter what happens to the markets.

I would hope that the President and Congress could come together soon on a package of changes to ensure the long term solvency of Social Security. That package should not include private accounts. But it is likely that it will have to include changes to slow the growth of benefits for future generations. Benefits will likely be affected by any bipartisan effort to restore long term solvency. And that takes us to our second Social Security challenge: benefit adequacy, particularly for vulnerable populations. Any solvency action should be accompanied by proposals to address the current weaknesses in our benefit structure.

A series of issues need attention in the months ahead. I would like to provide four quick examples. Should we explore ways to enhance benefits for the oldest old, whose sources of non-Social Security income support often erodes over time? Should benefits for widows be enhanced, and, if so, how? Should we provide more adequate benefits to those with low lifetime earnings, given the near absence of other substantial sources of retirement support for these workers? Lastly, since low-paid workers experience greater risk of becoming disabled before becoming old enough to retire, should the disability benefit safety net be adjusted for those unable to work, particularly if increases are made to the eligibility age for Social Security retirement benefits?

These are all very important income adequacy issues, and all should be examined within the context of any solvency debate.

The National Academy of Social Insurance has been examining in depth these benefit adequacy issues. Indeed, three panel members appearing before this Committee today have been researching these activities for NASI. Today, as Chair of the Board of the National Academy of Social Insurance, I am providing to the Committee the first of several NASI reports to be published on the topic of benefit adequacy for vulnerable populations. This report focuses on the benefits of targeted groups, such as widowed spouses, low-paid workers, people who have spent time out of the workforce because of childcare or eldercare responsibilities, beneficiaries who live to advanced ages, and older workers with occupational disabilities. Any discussion on modifying Social Security should consider benefit adequacy for vulnerable groups.

In closing, I would like to address how I believe we should proceed in the months ahead. I believe the path that we should follow is as follows:

- First, I would urge President Obama and the Congress to set a goal of addressing by the end of 2010 the dual challenges of Social Security solvency and Social Security benefit adequacy. Social Security has evolved for the past 75 years to meet changing needs, and it must continue to evolve. Any solvency proposal needs to address the adequacy of benefits for vulnerable populations.

- Second, Congress and the Administration need to come to agreement on the overall proportional mix of benefit and revenue changes needed to strengthen the system. Given the importance of Social Security as a source of income, I personally would lean more towards revenue enhancements. And rather than trying to solve a potential problem that may exist in the year 2100, I urge you to establish a more realistic goal. Frankly, no one knows what our fertility rates or our economic growth rates will be 100 years from now.

- Third, I do not believe that progress will take place on the Social Security issue until there is agreement to drop consideration of privatizing part of Social Security. A privatized system represents a dramatic departure from the framework that has guided Social Security for generations. If added retirement savings is desired – and it should be – it should come not at the expense of Social Security. I suggest that the Committee consider 401-k and IRA changes to help low and moderate income workers save through changes in default rules and added retirement savings tax incentives targeted at low and moderate income families.

I would like to conclude my testimony today with a quote from my testimony before this very same Committee ten years ago, during my tenure as Commissioner of Social Security. As we consider changes to Social Security, we need to ask a series of questions: "…whether Social Security continues to be a benefit people can count on; whether the elderly, disabled and survivors of workers are protected from financial hardship; whether the program is efficient, universal and fair; and whether the program is maintained as a basic public trust." I believe that these questions all still apply today. Social Security should continue to evolve, as it has in the past. We certainly need to find solutions to deal with the solvency challenge that we face, but we also need to find solutions than ensure that Social Security's essential framework stay strong and that we ensure the basic adequacy of benefits, particularly for our most vulnerable populations. I thank the Committee for continuing to focus on both of these very important topics.

xxxxx