Senate Democratic Policy Committee Hearing

"An Oversight Hearing on President Bush's Social Security Privatization Plan: Will You and Your Family Be Worse Off?"

Opening Statement
Senator Jeff Bingaman

Mr. Bingaman: Most people know that Social Security has lifted millions of seniors out of poverty since it was first enacted in 1935. It is important to recognize, however, that this country's Hispanic seniors, as well as New Mexico's seniors, have higher rates of poverty than the national average, and therefore, Social Security has a greater impact on their lives.

Hispanic seniors are more likely to live in poverty, at 22%. Further, Hispanic women aged 65 and older are much less likely to derive income security from other sources, like pensions, interest, dividends, or savings. Accordingly, Social Security represents the largest single component of retirement income for this population group. Without Social Security, more than 54% of Hispanic seniors would be living in poverty.

The President and other proponents of private accounts have stated that current Social Security benefits do not provide enough return on the investment for seniors, and that private accounts that are invested in the stock market will earn a considerably higher rate of return than that available from government bonds. Social Security, however, was never designed to be a way to get rich. It was designed to provide a basic level of protection against poverty in the event a worker can no longer work, due to old-age, disability, or death.

Stocks, by nature, are risky investments, however; the higher average return on stocks is at least, in part, a compensation for such risk. It is one thing to invest in riskier assets <u>in addition to</u> your guaranteed Social Security benefit, and quite another to invest in riskier assets <u>with</u> your Social Security benefit, and particularly if Social Security makes up a large portion, if not all, of your income. We all know that the economic backdrop today is looking more volatile than it did a few months ago, with the markets reflecting concern about high oil prices, a pickup in inflation, and growing budget and trade deficits.

Further, electing private accounts, as proposed by the President, is not without cost. To compensate for the loss of revenue available to pay current Social Security benefits, a worker who elects private accounts would see his or her guaranteed benefit reduced by the amount invested. In effect, the worker has not really "diverted" his or her Social Security contributions into a private account at all, but has merely borrowed from the government to invest in a private account. Under the President's plan the worker must actually pay this amount back, by reducing the guaranteed benefit, **with interest** at a rate of 3%.

So, the worker is really investing in the market on margin. Therefore, to come out ahead, the rate of return on the investment must exceed the 3% offset, plus any administrative fees incurred.

It seems to me that if you have a guaranteed retirement benefit that is not subject to market risk, then it makes sense to invest your additional savings in a higher return/higher risk portfolio. But under the President's proposal, the investments are replacing a large fraction of the existing Social Security benefit, so the risk to the worker is great.

Combined with the benefit cuts to middle-income families, as proposed by this Administration, this plan puts all the risk on the families who are least able to assume such risk.