Senate Democratic Policy Committee Hearing

"An Oversight Hearing on the Bush Administration's Plans to Privatize Social Security"

Douglas Holbrook
AARP

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Good morning, my name is Doug Holbrook, and I would like to thank Senator Dorgan for inviting AARP to testify at this hearing. Social Security is crucial to the economic security of more than 47 million Americans, and making certain that it is strong for future generations is a top priority of AARP.

In this age of heightened insecurity, the last thing the American people deserve is a threat to their own future financial security — and a threat to one of the most successful federal government programs in U.S. history.

Yet as we stand here today, Social Security stands in the line of fire. Steps must be taken to strengthen Social Security for the future. But there is a right way and a wrong way.

The wrong way is to take some of the hard-earned money workers pay into Social Security and divert it into private accounts.

Diverting money into private accounts would weaken Social Security, put benefits for future retirees at risk, and do nothing to ensure long-term solvency. Private accounts are NOT a way to strengthen Social Security.

Further, the transition to a private account system would cost trillions of dollars. That would add to the federal deficit and increase the federal debt. That is not the legacy we want to leave to our children and grandchildren.

AARP believes there is a better way to strengthen Social Security. We are firmly committed to ensuring that the only guaranteed source of retirement security for America's families is not put at risk.

Social Security is the only guaranteed, inflation-proof, lifelong benefit that millions of workers — present and future — can count on. And we should not be talking about replacing this rock solid core of income security with a risky gamble.

There are four pillars to retirement security and only one that is guaranteed — Social Security. The others pillars are pensions and savings; continued earnings; and health insurance.

But, less than half of working Americans have a pension plan where they work. Personal savings are at an all-time low.

The fact is, two-thirds of Americans age 65 and over get at least half of their income from Social Security. Lower wage workers and minorities depend even more heavily on Social Security for their retirement income. For one-third of beneficiaries, especially older women, Social Security is nearly their entire income — and Social Security is all that stands between them and a life of poverty. And when you consider the trends in private pensions and personal savings, we expect Social Security to be just as important for the boomers when they retire during the next several decades.

We all know that Social Security faces a long-term financial problem. But, by making some reasonable adjustments today we won't have to take drastic action tomorrow.

The first thing we need to make clear is that Social Security is financially strong. The program is *not* in crisis. We need to remind people that even after 2042 when the trust fund is exhausted, Social Security can pay over 70 percent of current law benefits for decades. Once people understand this fact, they are much more open to options that will strengthen Social Security for the long haul.

However, it is true that the system needs long-term measures to be able to pay full benefits to boomers and future generations.

Creating private accounts funded with money diverted from Social Security is the wrong way to deal with a projected shortfall decades from now. But there is a right way. Here are two examples of what we can do:

- First, we can increase the wage base for Social Security contributions. Currently, about 85 percent of total wages nationwide are subject to Social Security payroll taxes. That figure was 90 percent for many years.

  The maximum wage subject to Social Security payments in 2005 is $90,000. Raising that cap to again cover about 90 percent of wages — to $140,000, phased-in over 10 years — would lower Social Security's projected shortfall by 43 percent.

  This is fair because higher wage earners have recently benefited from substantial tax cuts and other subsidies for their investment and retirement accounts.

- Second, we can diversify Social Security's Trust Fund investments to increase the likelihood of higher returns.

  Today, the Trust Fund can only be invested in special Treasury bonds. These are safe investments that currently earn about 6% for the trust funds.

> Investing some of Social Security's funds in a broad index fund, like most other pension systems, could yield higher returns. Unlike private accounts, this approach would also spread the risk across the whole population and all generations.

Administrative costs and management fees would be far less than for millions of personal accounts. Diversifying investment in this way could lower the expected shortfall by 15 percent.

Taken together, these two reasonable steps would lower Social Security's shortfall by more than half — and that is just for starters. There are other steps, short of gambling with risky private accounts, that could strengthen the program even more.

Some proponents present the concept of private accounts in fancy wrapping and colorful ribbons. They are promising a kind of "free lunch" — Social Security changes that come at no cost to anyone.

But, we should remember that all that glitters is not gold. These plans could easily leave you and your children with more debt, less security, and quite probably, less income. That is unacceptable.

There is a lot at stake in this debate. The trillions of dollars it would cost to create a private account system may well lead to higher interest rates that will raise interest payments on all of the federal debt. That would squeeze the federal budget even tighter. It could lead to higher taxes on everyone and cuts in the funding for essential federal programs besides Social Security, such as Medicare and Medicaid.

This would be bad for the economy, bad for family budgets, and bad for future generations.

And it's likely that the next generation would have to pay twice to take this gamble — once to keep our commitments to current retirees, then again to pay into private accounts.

In closing, let me be clear: AARP supports individual accounts. They are an essential savings tool, but *in addition to Social Security*, not in place of it.

It is extremely important for our children and grandchildren to be setting money aside to invest and save for their retirement. But we need to encourage this saving and investment independent of Social Security.

But, under *no* circumstances should we weaken Social Security by diverting money from it to create private accounts.

This is first and foremost a question of values.

As a nation that values the well-being, dignity and security of every citizen, we should not abandon those principles and leave millions of older Americans at risk.

As a nation that has always recognized that a house divided cannot stand, we should not allow Social Security to become a generational dividing line, pitting old against young.

Franklin Roosevelt said it best during his radio address on Social Security's third anniversary. He said:

"…In our efforts to provide security for all American people, let us not allow ourselves to be misled by those who advocate short cuts to Utopia or fantastic financial schemes."

With your help, we will strengthen Social Security and keep its promise now and for generations to come.

Thank you.