STATEMENT OF

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Chairman Kohl, Ranking Member Corker, and Members of the Committee thank you for the opportunity to discuss the shortcomings of the current Social Security system and why women's groups are out to encourage fundamental reform.

Social Security Overview

For nearly eight decades, along with personal savings, Social Security has helped provide retirees with a basic level of retirement security. And today's retired population should be able to count on the promises our government has made. That's why no one proposes changing benefits for those depending on Social Security today.

However, as it is currently structured, Social Security is unsustainable and unfair. And with our national debt swelling to nearly $16 trillion, Americans increasingly recognize that comprehensive reform of Social Security needs to be a part of our long-term debt solution.

If we act now – and if we address the program's costs and inequities in a responsible, forward-looking way – we have a chance to reform and preserve the program for future generations while ensuring the retirement security of today's working men and women who will come to depend on Social Security's future solvency.

First, we must understand the root of today's problem:

Social Security's pay-as-you-go pyramid structure was designed with the idea of having a substantial base of individuals paying into the system, with a much smaller number of people receiving benefits. And at the time the Social Security Act was implemented into law in 1935, that's exactly the way society looked. In fact, in 1940 there were more than 150 workers paying in to Social Security per beneficiary. But that ratio has shifted dramatically over the years. By 1960, there were just five workers per beneficiary; by 1990, it dropped to 3.4 workers for each beneficiary; and today, there are less than three workers per beneficiary.

And that ratio is only going to continue to worsen. The reality is today we have a growing number of retirees, longer life expectancies, and lower birth rates – all of which corrode the pay-as-you-go structure. It follows that, as the number of workers-per-retiree drops, the amount each worker will be required to contribute to keep the program sustainable will increase.

Already today Social Security payroll taxes aren't generating enough money to cover benefits. The current shortfall is due, in part, to high unemployment; but even if the employment situation improves, it will not be enough to balance the oncoming tsunami of retiring Baby Boomers.

The Social Security administration has a Social Security Trust Fund with about $2.6 trillion in assets. When payroll taxes aren't enough to pay benefits (there was a nearly $50 billion hole in 2010), the Social Security Administration (SSA) simply cashes in the bonds in the Trust Fund to make up the difference. But when the SSA cashes in those bonds, the General Treasury has to come up with the money to pay the SSA back. In other words, the Trust Fund may be an asset for Social Security, but it's a liability for American taxpayers.

This means that in addition to paying payroll taxes, in future years Social Security will become a major line item in the general budget. This will put additional pressure on our already strained resources and increase our enormous deficit and national debt. It will mean that Congress will have less money to spend on other national priorities because tens of billions – and ultimately hundreds of billions – will have to go to pay back Social Security's Trust Fund.

But the picture is even more grim. The fact is even Social Security's Trust Fund is expected to run out in about twenty-five years. This means that today's youngest workers are paying into a system that may never pay them back. When today's Millennial Generation retires, payroll taxes will cover about 77 percent of promised benefits.

That means that if nothing is done to change Social Security, future beneficiaries will see their checks slashed. What's more, a 77-percent return is a poor investment for today's youngest workers.

What this means for Women

Of course, finding a way to keep Social Security solvent and to increase our national savings and economic growth are only one part of the picture. The reality is Social Security is inherently unfair, produces a low rate of return on investment, does little to close the wealth gap, and ignores the very real problem of ownership and control.

Women are a particularly disadvantaged group as a result of the program's antiquated defined benefit system. The fact is Social Security's benefit structure has remained largely unchanged since it was established in 1935; the same, of course, cannot be said for women's roles in society.

Social Security's benefit formula is a relic of a bygone era when many more Americans were a part of a traditional, single-earner family, in which the husband was the breadwinner and women worked within the home. Today, however, a minority of Americans live in this family structure. Most women, married and unmarried, work outside the home. Many women are putting off marriage and childbearing until much later in life, others never marry, and divorce is far more common.

At its core, the current benefit structure remains highly regressive. As a result, many women lose out under Social Security's calculations. Consider, for instance, the problem of the outdated "dual entitlement rule." The architects of Social Security designed the program so that at the time of retirement the spouse with the lower lifetime earnings (usually the wife) would receive either a benefit equal to her own earnings or half of her spouse's benefits. At a time when far fewer women worked outside of the home, this may have made sense.

But today this means that working women often end up no better off than women who never worked outside of the home and never paid into the system. Stay-at-home spouses who are not contributing financially to Social Security are benefiting at the expense of women working outside of the home, who are required to pay Social Security taxes but don't receive any additional benefits. And this design is particularly pernicious for certain subgroups, like African American women, who are less likely to be married than white women.

The problems are even more extensive. In 1935, divorce was far less common than it is today. Still the structure of the program has not kept pace. Divorced women then and now must have been married for 10 years in order to receive Social Security benefits based on her former-husband's earnings. That may have seemed generous in the 1930s, but today millions of women who find themselves in bad marriages are penalized by this policy, and many newly divorced women must start from square one in saving for retirement.

And Social Security also fails many single women. A single-mom, for example, who has paid Social Security's taxes her whole life, while struggling to make ends meet, will leave her adult children only Social Security's paltry $255 death benefit. Her years of work and thousands put into the system will have been for nothing.

And single, working women (and men) without children who die prematurely receive the harshest punishment. The state reclaims all of their contributions to Social Security, without an option to leave savings to other relatives, friends or charity.

Still, traditional women's groups continue to pull out all the stops to prevent long-overdue, fundamental reform of Social Security. At a time when women outperform men academically, are soaring to the top of nearly every professional arena, are increasingly becoming the breadwinners, and have more choices than ever before, feminists should move beyond this antiquated view of Social Security as the best we can do for women. The fact is gender imbalance is a serious liability of Social Security.

The Solution is Not More of the Same

The solution for women is not more "wealth distribution;" rather, women need a retirement plan that reflects the changing roles of women and the American family in the 21st century.

Instead of allowing Social Security to continue on this path of burdening American taxpayers, adding to our debt, and ultimately disappointing beneficiaries and treating some Americans unfairly, Congress should make prudent changes to make Social Security more equitable and more financially stable.

There are many ways to reduce Social Security's costs. For example, Congress could consider raising the age of eligibility for Social Security.

In 1940, a man who reached age 65 was expected to live an average of 12.7 more years, and a woman was expected to live 14.7 years. By 1990, the 65-year-old man is expected to live 15.3 years and the woman 19.6. That's two and a half more years of payments for the man and five more years of payments for the woman. Those extra checks add up.

Adults today also are much more likely to reach retirement age. In 1940, a 21-year-old man had a 54 percent change of reaching 65, while a 21-year-old woman had a 61 percent chance. By 1990, a man who made it to 21 had a 72 percent chance of reaching 65, and the woman had an 84 percent chance. That means that in the past, many workers who paid Social Security taxes never collected benefits while today the vast majority of young workers live long enough to collect benefits.

These trends are great news for all of us who can expect to live longer and healthier, but it's obviously a strain on Social Security's finances. When Social Security was envisioned, no one expected millions of Americans to receive retirement checks for more than thirty, or even forty, years. Yet that's increasingly the case today, and will become more commonplace as life expectancies continue to rise.

Social Security's age of eligibility could be gradually raised and indexed to life expectancy to help bring costs down and return the system to its original intentions.

There are also numerous proposals to change how cost of living increases are calculated. Many estimate that current beneficiaries who earned the same Social

Security payments get more today in real dollars than beneficiaries in years past, because of the method used for determining inflation. Congress should consider more accurate ways to estimate inflation so that benefits are stable, and not artificially inflated.

Congress should also consider explicit reductions in benefits that are paid out to high-income retirees. Social Security isn't meant to be a welfare program, and the benefits that are received are supposed to bear a relationship to taxes paid in during one's working life. Yet given Social Security's bleak prospects, changes have to be made, and those seniors with the highest incomes will be better able to withstand reduced benefit payments. It may not be fair, but it may be necessary.

Reducing Social Security's future costs will be necessary to avert economic disaster and make sure that the program is sustainable in the long term. But these changes alone aren't enough. And in fact, while necessary, such changes will exacerbate some of Social Security's other flaws.

For example, reductions in the growth of future benefits will make the system a worse deal for program participants. Those who die before or immediately after retirement age will still have nothing or little to show for a life-time of contributions to Social Security. How much someone receives from Social Security will still be influenced by marital status and life expectancy, creating unfair outcomes for many.

But simply making the current Social Security system sustainable shouldn't be the only goal of reform. Ultimately, policymakers must consider how to move toward a system that allows people to save and invest on their own.

Individual retirement accounts are one way women (and men) could own and control their savings and bring much higher returns that they can pass on to family or charity. What's more, they would also decrease Americans' dependence on the federal government, lower the national debt, and restore the long-term solvency of Social Security.

There are many ways to incorporate a system of personal accounts into Social Security while maintaining a basic safety net (to make sure that, regardless of the performance of the financial markets, everyone eligible for Social Security receives income support that keeps them out of poverty). While policymakers address Social Security's immediate financial challenges, they should also consider how to turn this often arbitrary pay-as-you-go system into a system that gives the American people real freedom to save for retirement in a way that best suits their needs.

In the end, women want what we all want today; the freedom to save and invest in a way that reflects the needs of our family and plans for the future.