JANET M. GARRY
GOVERNMENT AFFAIRS CONSULTANT
P.O. BOX 749
ROCKVILLE, MD. 20848-0749
TELEPHONE (301) 770-1850/ FAX (301) 770-1852

DATE: March 25, 1996

TO: NATIONAL COUNCIL SSMA OFFICERS & EXECUTIVE COMMITTEE
MAUREEN McCONAGHY, NATIONAL GRASSROOTS COORDINATOR
WILLIAM DIXON, EDITOR 'MASS MEDIA'

RE: Legislative Report #14

SS Earnings Limit: The House Senior Citizens' Right to Work Act of 1996 has been attached to the **Debt Ceiling bill** which must (?) be passed by both the House and Senate by the expiration this Friday (29th) of the current short-term debt ceiling extension. (The only other legislation attached to the debt ceiling is a Small Business Regulatory Relief bill.) The combined debt ceiling-earnings limit bill is now H.R. 3136, the "Contract with America Advancement Act of 1996." It is scheduled for House floor vote late Tues. March 26 and for the Senate floor Wednesday or Thursday. Democratic leaders in Congress have publicly stated the President's willingness to sign the bill. It was negotiated between the House and Senate prior to introduction in the House to ensure that no changes are made in the Senate, thus no need for the delay of a House-Senate conference after each chamber has voted.

Dropped from the earlier House-passed earnings limit bill is the provision which would have eliminated SSA's role in collecting attorneys' fees. SS Subcommittee Chairman Bunning strongly advocated and fought for the attorneys' fees provision. However, about a dozen Senators (themselves attorneys), notably Sen. D'Amato (R-NY), brought pressure to eliminate it in order to ensure Senate passage of an unaltered package. While there are some Senators -- especially among the appropriators -- who dissent and think SSA should not be performing the attorney's fees work, or that if you continue to do so the attorneys should be paying a fee for the service, it is highly unlikely that a different deal will be struck on this bill at this point. Frustration and deep disappointment have been expressed by staff in both the House and Senate who feel a real opportunity has been lost to do something about attorneys' fees collection.

Even as Appropriations negotiators continue to work on the **FY '96 Omnibus bill (no final word as of noon today, though this also must be done by the 29th)** which covers SS administrative spending for the current year, they look ahead to FY '97 and warn that they cannot fund, for example, the Continuing Disability Review proposal included in the earnings limit bill. As the noose is drawn

increasingly tight on SSA funding, perhaps more members of Congress will see workloads such as the attorneys' fees collection as expendable activity rather than as something which should be done at government expense to serve private sector interests.

Summary of Earnings Limit bill expected to be enacted this week:
* Phase in earnings limit increase for those between age 65 and 70 from $14,000 for 1996 (i.e., would raise the limit for this election year, of course!) to $30,000 by 2002, after which time the exempted amount would be indexed to the growth in average wages.

* Establish a CDR authorization: Permit amounts spent for CDRs above assumed base funding levels to be exempt from discretionary spending caps through FY 2002. SSA would report annually on CDR expenditures and savings.

* Stepchildren's benefits: Benefits to a stepchild only if the stepchild is dependent upon the stepparent for at least one-half of his or her financial support. Benefits terminate one month after a divorce if the stepchild's natural parent and stepparent divorce. Effective for those becoming entitled or re-entitled three months after date of enactment. SSA must notify annually those potentially affected.

* DA&A: Eliminate eligibility for SS/SSI benefits if drug addiction or alcoholism is the contributing factor material to his or her disability. DA&A individuals can qualify for benefits if they have another severe disability condition, but must have a Rep Payee to receive and manage checks. Additional funding for drug and alcohol treatment programs is assumed for FY 97 and 98. Effective at enactment; individuals entitled to benefits before the month of enactment continue to be eligible until Jan. 1, 1997.

* Comm. of SS must conduct a two-year study of the efficiency of providing individual benefit and contribution information to recipients of OASI benefits.

* "Codifies" Congress' understanding that Sec. of the Treasury may not use SS and Medicare funds for debt management purposes.

Social Security Advisory Council solvency recommendations:
The second hearing this month by the Senate Finance SS Subcommittee on the subject of SS solvency was held today. (Ron Niesing has been BUSY!) It focused on the recommendations of the Council despite the fact that their report is not yet finalized and published. The bottom line from this and the March 11th hearing is: two things loom large on the horizon, perhaps coming in '97 or '98 -- CPI modification or use of some other index for cost of living adjustments AND some degree of privatization of investments, in an undetermined-as-yet form. It sounds like we may see a gradual further increase in SS retirement age also. (You can skip

the following details of the hearing if the bottom line was enough.)

Chairman Simpson opened by stating that in 1994 Sec. Shalala charged this quadrennial committee with making recommendations for long range solvency. Thirteen bi-partisan members representing different groups in society were appointed. Simpson then revisited his sentiments from the previous hearing, decrying the "wolf-like protests" he hears regarding proposals to "break promises made," SS as "third rail of politics," etc. He acknowledged, however, that Seniors have the lowest rate of poverty in history and that SS must ensure the same for future retirees, and that changes must be prospective in nature. . ."all promises to those who are retired or nearing retirement will be fully kept . . . changes will be gradual . . . but we must start the dialogue now" because there is "no lock box of money" ETC.

Sen. Moynihan maintained that the image of SS as the "third rail of politics" derived from "taking benefits away from persons who are now receiving them" rather than "taking benefits away from people who think they are never going to get them . . . (and therefore) can't feel any great loss." Stating that "SS was put in place at an abnormal time, was highly academic and modeled on the European model," he reprised his theme from the March 11th hearing (his leitmotif?) of "the CPI does not accurately reflect cost of living changes." He applauded the President's budget for moving in the right direction by assuming formula changes which will reduce CPI by .3%. He noted OMB Director Rivlin made a recommendation of a 1% reduction in CPI last year, that the Federal Reserve Board estimated CPI bias at "just under 1.1%," and the congressional entitlement commission said that CPI overestimated cost of living increases by at least .7%. "If you think of government as a computer . . . the CPI is a defective chip."

Sen. Breaux stated that the SS Advisory Council should "be able to tell us what we did improperly in 1983 so that we can make the right corrections now . . . re CPI, we have to be accurate so that people take not more than they should but just what they should . . . It is wonderful that people are living longer . . . we should take that into consideration also . . . Regarding privatization, we want to hear the Council's ideas."

The first panel: Henry Aaron, Dir. Economic Studies Program, Brookings Institute and two Advisory Council members -- **Olivia S. Mitchell**, Advisory Council Panel on Trends and Issues/Retirement Savings and Prof. at Wharton School of Business (PA); **Howard Young**, Advisory Council Panel on Assumptions and Methods and Prof. at U of Mich.

Aaron maintained that the 1977, 1983 and 1993 SS benefit changes had been well tolerated by the public and that polls indicate "Americans want to receive SS benefits and are willing to pay

higher taxes in order to do so." (Simpson said he remembers six of his colleagues who "disappeared into vapors" after 1983 because their adversaries ran a "those are the guys who cut your Social Security" campaign.) Aaron said 75 year projections were important to attempt, but not predictably accurate (others on both panels later agreed on both counts); actuarial procedures used with SS projections are conservative by international standards and we would project a "surplus" if we used more universal procedures; SS is not even close to a "crisis" -- the increased cost of SS of 2% of gross domestic product over the next three decades is fine, the increased costs that will occur over the next 12 years are the same as those that actually occurred between 1970 and 1982; some small steps should be taken ASAP largely to restore public confidence, but only "relatively modest" changes are needed.

Mitchell wanted something decided and announced soon, especially if change in age of eligibility is involved;, said if tax increase taxes and benefits reduced within five years, increase would only have to be 2% and reduction 20% versus a 4% tax increase and 33% benefits cut if you wait until the Baby Boomers are retiring. She advocated 1) delayed retirement as the "easiest" way to address the problem; 2) an increase in payroll tax rate rather than taxing employee benefits; 3) if privatize portion of investments, need to make funds unavailable to the employee until retirement.

Young spoke like an economist or statistician, and very fast, so I'm not sure what he said, except that the panel was split over the CPI issue -- "interpretation of real rates is affected by CPI . . . while there would be savings in benefit payments, impact on real wage growth and the real interest rate could offset savings to some degree." He advocated development of new long range solvency tests after reforms are made.

In questions,
Young said he could think of "no better" index than CPI for COLAs but that CPI needed improvement; did not advise using the Gross Domestic Product index (used by CBO and OMB in setting appropriations caps) because it attempts to measure how the total economy grows rather than what happens to consumers.
Aaron said a better index could be constructed but might not be accepted -- need a way to accomplish principle of "purchasing power constant," which the CPI doesn't do; opposed raising the SS earnings limit because of the increased outlays without real revenues to offset and because the impact on "labor supply" is only in days rather than months or years as some claim.
Mitchell suggested age 70 as a retirement age target with an increase also in early retirement age; said need a better COL measure but a permanent fixed reduction below CPI was inadvisable.

The second panel presented three different Advisory Council views on privatization of investments: Edith Fierst, attorney advocated a Maintain Benefits plan; **Edward Gramlich**, Dean of U. Of Mich.

School of Public Policy advocated an Individual Accounts plan; and **Sylvester Schieber**, VP, Watson Wyatt Worldwide advocated Personal Savings Accounts. **Much was made of the report that "All members of the Advisory Council favor private investments."** Moynihan stopped the testimony to note the historic nature of this consensus. One panelist suggested that the Senator seemed shocked -- Moynihan replied "Sir, I represent New York City, so I am not shocked, but delighted! . . . There is no precedent for this." Fierst said she saw a precedent in New York State's "shining example" of a retirement plan, which investment fund is overseen by one trustee, the Controller of the State.

Maintain Benefits
Fierst listed more than a dozen reasons to maintain focus on basic SS benefits, including: unlike private sector, SS always paid on time; 75 million working Americans have never invested privately; advisors/stockbrokers are licking their lips; annuitization is not required, some would outlive their benefits; survivor and DIB benefits would suffer; might draw on personal accounts in emergencies; asset division in divorce not uniform. A percentage of contribution going into private investments should be in a broadly based indexed central fund with professional leadership, perhaps a three-member board. Sen. Breaux showed much sympathy for this view; he expressed concern for the need to protect low to middle income earners against poor choices in the market. Fierst said "estimates show that average wage earners would gain very little from the personal savings, or individual accounts options though all would share the risk." She even questioned using something patterned on the Federal Thrift Plan, noting that the equities fund has done much better than the other two but that anxiety is created over choosing a fund: "Do we really want to place this degree of anxiety on people for their basic SS benefit?"

Individual Accounts Plan
Gramlich advocated no central investment fund in equities, but a mandatory 1.6% of payroll invested individually into an account providing for annuitized payments on retirement; SS benefits would be "scaled back" to preserve actuarial balance (??), eliminating a transition problem and there would be no ability to over-consume benefits before or during retirement. Said this preserved all current protections, raised national savings, gets some retirement money invested in equities. (Fierst said she did not think the Advisory Council's charge was helping national savings or private equities, but protecting employees retirement.) Gramlich said he fears political pressure/manipulation on a central fund and that safeguards could be put in place to ensure individuals would invest in reputable plans.
Also said his option raises moneysworth projections for younger workers, but admitted that all three options did that.

Personal Savings Accounts
Schieber advocated accounts more like IRAs or 401(k)s except with

mandatory participation and no distributions until retirement. 5% of pay would be contributed, under the sole direction of the worker. Workers under 25 would be fully covered under the new system -- as I understand it, these workers would have no "basic SS benefit" at all. Transition would be financed on a pay-as-you-go basis by an explicit tax called the "liberty tax" -- formal debt issued as bonds for sale -- this would require $1.2 trillion between 2045 and 2050 which would be fully paid off by 2063. "In terms of how people individually invest, look at 401(k) growth . . . workers didn't know how to invest when they started but they have become savvy investors, investing heavily in equities early and shifting toward bonds as they draw closer to retirement . . . financial risks are no greater than risks in political form." Sen. Breaux suggested that some to whom he is accountable would think SS was even more unstable than it is now if significant retirement funds were invested individually in equities.

End