The National Council of Social Security Management Associations, Inc.

THE WASHINGTON REPORT
LEGISLATIVE REPORT 25-2003

August 25, 2003

• Recent Congressional Action Related to the Social Security Program

Below is a compilation of recent congressional action related to the Social Security Program. Please do not hesitate to contact us if you have any questions or would like us to provide additional information regarding any of the measures.

Introduction of S.1519
Title: A bill to amend title XIX of the Social Security Act to extend Medicare cost-sharing for qualifying individuals through 2004.
Sponsor: Sen. Bingaman, Jeff [NM] (introduced 7/31/2003) **Cosponsors:** 7
Latest Major Action: 7/31/2003 Referred to Senate committee. Status: Read twice and referred to the Committee on Finance.

Introduction of S.1523
Title: A bill to amend part A of title IV of the Social Security Act to allow a State to treat an individual with a disability, including a substance abuse problem, who is participating in rehabilitation services and who is increasing participation in core work activities as being engaged in work for purposes of the temporary assistance for needy families program, and to allow a State to count as a work activity under that program care provided to a child with a physical or mental impairment or an adult dependent for care with a physical or mental impairment.
Sponsor: Sen. Smith, Gordon [OR] (introduced 7/31/2003) **Cosponsors:** 2
Latest Major Action: 7/31/2003 Referred to Senate committee. Status: Read twice and referred to the Committee on Finance.

Introduction of H.R. 2971
To amend the Social Security Act to enhance Social Security account number privacy protections, to prevent fraudulent misuse of the Social Security account number, and to otherwise enhance protection against identity theft, and for other purposes.
Sponsor: Rep Shaw, E. Clay, Jr. [FL-22] (introduced 7/25/2003) **Cosponsors:** 30
Committees: House Ways and Means; House Financial Services; House Energy and Commerce
Latest Major Action: 7/25/2003 Referred to House committee. Status: Referred to the Committee on Ways and Means, and in addition to the Committees on Financial Services, and Energy and Commerce, for a period to be subsequently determined by the Speaker, in each case for consideration of such provisions as fall within the jurisdiction of the committee concerned.

Floor speech of Rep**. E. Clay Shaw (R-FL)** on Friday, July 25, 2003 concerning the "Social Security Number Privacy and Identity Theft Prevention Act of 2003"(from the *Congressional Record*, p. E1637, July 25, 2003):

"Mr. Speaker, (the) use of Social Security numbers is rampant. When Social Security numbers were created in 1936, their only purpose was to track a worker's earnings so that Social Security benefits could be calculated. But today, we literally have a culture of dependence on Social Security numbers.

Businesses and governments use the number as the primary way of identifying individuals. All of us know how difficult it is to conduct even the most mundane transactions without having to provide our Social Security number first. It's no wonder identity theft has become the fastest growing white collar crime.

Worse yet, terrorists, including those responsible for the September 11th attacks, misuse SSNs in order to assimilate into our society.

Barely a day goes by without hearing more examples of the truly devastating effects of identity theft. Just this month, at a Ways and Means Subcommittee on Social Security hearing, we learned about a widow whose husband died in the September 11th attacks on the World Trade Center--an illegal immigrant used her deceased husband's Social Security number to get a driver's license and to work. We also heard about individuals whose credit was ruined, who were arrested for crimes they did not commit, and who spent years and hundreds or even thousands of dollars out of their own pockets trying to clear their names because of identity theft often facilitated by obtaining the individual's Social Security number.

Concerns about identity theft are increasing dramatically. According to the Federal Trade Commission, identity theft is the number one consumer complaint--amounting to 43 percent of complaints received in 2002. In fact, my state, Florida, is sixth in the nation in the number of identity theft victims per 100,000 people.

Clearly, there is need for a comprehensive law to better protect the privacy of Social Security numbers and protect the American public from being victimized. Today, I re-introduce the "Social Security Number Privacy and Identity Theft Prevention Act of 2003," which is similar to bipartisan legislation introduced during the last Congress. In the public and private sector, the bill would restrict the sale and public display of Social Security numbers, limit dissemination of Social Security numbers by credit reporting agencies, make it more difficult for businesses to deny services if a customer refuses to provide his or her Social Security number and establish civil and criminal penalties for violations.

Based on the thoughtful comments we have received, this new legislation reflects a small number of fair and appropriate modifications, including the following: In response to concerns about potentially preventing necessary disclosures of the SSN and the impact on businesses, customers, and the economy, the U.S. Attorney General will be able to authorize the sale, purchase and display of SSNs only when necessary and with restrictions to assure the Social Security number would not be used to commit fraud or crime and to prevent risk of individual harm.

Based on feedback from employee benefit plan administrators, the legislation makes clear that sale and purchase of Social Security numbers does not include its submission for administering employee benefits.

In response to concerns regarding vulnerabilities in the Social Security Administration's process of issuing Social Security numbers, the bill tightens controls by requiring a photo ID; raising the standards for issuing Social Security numbers to babies; and restricting reissuance of Social Security number cards.

In response to concerns about the need for stronger, clearer penalties for SSN misuse, the legislation provides enhanced criminal penalties for repeat offenders and for misuse associated with drug trafficking, crimes of violence, and terrorism. The legislation provides criminal penalties for Social Security employees who sell Social Security numbers or cards, as well as for individuals who sell their own Social Security number to another.

Congress must act to protect the very number it requires each of us to obtain and use throughout our lifetime. Providing for uses of Social Security numbers that benefit the public while protecting these numbers from being used by criminals, or even terrorists, is a complex balancing act. This bill achieves that balance by ensuring Social Security numbers are assigned accurately, exchanged only when necessary, and protected from indiscriminant disclosure. I urge Members to co-sponsor this important legislation."

Rep. Nick Smith (R-MI) spoke at length about Social Security and individual accounts. Below is an excerpt from his speech (from the *Congressional Record*, July 21, 2003):

"Madam Speaker, I am going to present sort of a tutorial on Social Security, and if my audience listens up, if they can stick with me for the next 25 or 30 minutes, they might know as much about Social Security as a lot of individuals in Washington, which is probably one of our most successful programs, but probably one of the programs that is most at risk as we continue to overspend, as we continue to have government take the surplus coming in from the Social Security taxes and spend them on other programs.

Social Security is the largest Federal expenditure. As we view this chart, we can see Social Security is now spending 22 percent of the total Federal budget, 22 percent. This is more than defense, more than all of the discretionary programs of the 13 appropriation bills that we are agonizing over, more than all of the other entitlements put together, more than Medicare and Medicaid combined. Social Security is spending $475 billion this year in 2003.

The risk to Social Security is that we are faced in the demographics of having the baby boomers retire. So 76 million baby boomers are going to start retiring in 2010, and that means they stop paying into the Social Security tax and they start taking out at the highest rate.

Now, the next chart represents the predicament. As we see, the overall gross Federal debt between now and 2013 continues to increase to approximately $10 trillion in the next 10 years. Where the debt held by the public eventually, starting 10 years from now, diminishes a little bit, the overall debt is continuing to increase. And that is because government is borrowing every penny coming in surplus from all the trust funds, from the Medicare Trust Funds, from the Medicaid A and B Trust Funds, from the Social Security Trust Fund, from the Federal Retiree Pension Trust Funds; government is taking this extra money, not saving it, but spending it on other government programs. So the challenge is, how is government going to pay this money back? In this case that we are talking about tonight, how is government going to come up with the money to pay back what is now $1.7 trillion that it owes Social Security, plus the unfunded liability of Social Security in the future?

If we take how much money we would have to put in investment accounts today, over and above the tax revenues coming in from Social Security, it would take $9 trillion invested today, and remember our Federal budget is about $2 trillion a year, it would take about $9 trillion invested today to accommodate the demands and needs of Social Security if we are going to keep our current promises.

This chart sort of represents in the short-term surpluses that end about 2017; and the future deficits are in red at the bottom right hand of the page. This represents the trillions of dollars that are going to be needed in the future over and above tax revenues. So what do we do about it?

One of the problems is that every time Democrats might suggest a solution, Republicans suggest, well, they are trying to ruin Social Security. More often, every time a Republican offers a solution, which have been several since I have been in Congress, starting in 1993, the Democrats have demagogued it the next election and scared seniors; and so everybody has sort of kept their hands off. They have been afraid to deal with this problem of saving Social Security.

Let me go through some of these charts. Our pay-as-you-go retirement system will not meet the challenge of the demographic change. The demographic change is twofold: one, a slowing down of the birthrate and an increase in the length of time people live. So since more people are retiring, that means there are more people going to be taking out from Social Security than are putting into it. And make no mistake, there is no savings account with our name on it. There are no savings in Social Security. The money comes in from the Social Security FICA tax one week and within the next 10 days it is sent out to recipients.

In terms of the demographics, in 1940 there were 42 people working, paying in their Social Security tax, for every one retiree. By the year 2000, there were three people working, paying in their Social Security tax for every one retiree. And the estimate is, by 2025 there will only be two people working for every individual that is taking out Social Security benefits. So what we have done, of course, is increase the taxes on those working to make it tougher and tougher. So right now we have most working people in the United States paying more in the Social Security tax than they do in the income tax.

Insolvency is certain. The actuaries know how many people there are in this country and they know when they are going to retire. We know people will live longer in retirement. In 1934, the average age of death was 62, but the retirement benefits started for full benefits at 65. So most people did not live long enough to collect Social Security. So the system went along very handily. And then people started living longer and longer, and today the average age of death is about 80 years old for a female and about 76 years old for a male. We know how much these individuals will pay into Social Security. We know how much they are going to take out.

Payroll taxes will not cover benefits starting in the year 2017, and the shortfalls will add up to $120 trillion between 2017 and 2775. That means $120 trillion we are going to need over and above the tax revenues coming in for Social Security.

I mentioned the $9 trillion. The $9 trillion is in today's dollars. If we came up with the $9 trillion today and put it in a savings account, that $9 trillion plus the interest on that savings account equals the $120 trillion between 2017 and 2075.

Just to alert, Madam Speaker, Social Security right now is not a good investment. When we started in 1934, instead of all these people, after the Great Depression, going over the hill to the poorhouse, we decided to have enforced savings. So we came up with a program, FDR did, that said, Look, we are going to take some of your earnings today so that you have some social security of having some money coming in, not having to go to the poorhouse when you retire.

If you happened to retire in 1960, it took 2 years to get everything back that you and your employer put into Social Security. By 1980, it took 4 years after your retirement. By 1995, you had to live 16 years after you retired to break even on the money you paid into Social Security. And by 2005 it is going to be 23 years you have to live if you retire year after next. 2015 and all the way through 2025, you are going to have to live 26 years after you retire. Remember, in 1983 when we changed the Social Security law, the so-called Greenspan Commission, we said that we were going to index the retirement age upwards so that we have started going up to a full entitlement age of 67; and we started that last year, increasing gradually over the next 20 years, moving from 65 to 67 for the maximum income from Social Security retirement.

Some people have suggested, well, the government has borrowed $1.3 trillion of the surpluses that come in from Social Security. If government would just keep their hands off that extra money coming in, we would be okay. But I did this chart represented by these two red graphs to represent we would not just be okay. What government owes the Social Security trust fund, what we have borrowed since there has been surpluses coming into Social Security, we have borrowed $1.3 trillion. The shortfall, even after the repayment of the trust funds, is going to be $10 trillion. That is just to take us up to 2075. So huge problems of coming up with the dollars.

And how do you do that? Do you raise taxes or do you cut benefits or do you increase borrowing? The system is stretched to its limits and 78 million baby boomers begin retiring in 2008. Social Security spending exceeds tax revenues; the estimate is now 2017. It depends partially what happens to the economy in the next couple of years, whether that comes down to 2016 or not. And Social Security trust funds go broke, even if all the money borrowed is paid back, in 2037, although the crisis is going to arrive much sooner.

Let me just explain a little bit why the crisis arrives in 2017. That is because there is not going to be any money to come up with to pay back the trust funds. There are no savings. The trust funds have been already spent on other programs. You either have to borrow more money or you have to increase taxes or you have to cut benefits.

A lot of argument, should we be getting a better, a real return on the Social Security money paid in by American workers? When Franklin Delano Roosevelt created the Social Security program over 6 decades ago, he wanted it to feature a private sector component to build retirement income. Social Security in all of the literature sent out in those years was supposed to be one leg of a three-legged stool to support retirees. It was supposed to go hand in hand with personal savings and private pension plans.

Going to the archives, it is interesting, researching what happened to the debate on Social Security when it was debated in 1934 and 1935. The Senate actually said that it can be for savings and it would go into privately owned accounts where government could not own and control the money but individuals would own their own savings account but they could not take the money out of the account; but if they died, for example, before they reached retirement age, it would be their money that went into their estate. The House enacted a separate legislation that said, no, it has got to be a government account, everything comes into government, government then guarantees the payments that would go out to retirees. Then it went to conference committee. In conference committee, the negotiations went with the House version, so it became a government program with no personally owned savings account.

I just think it is important, Madam Speaker, to mention that there is no entitlement to Social Security. It has gone before the Supreme Court twice now. In two different occasions, the Supreme Court has said that the Social Security taxes are simply a tax, the benefit program is a benefit program enacted by Congress, signed by the President, and there is no entitlement just because you pay in the Social Security tax.

The diminishing returns of your Social Security investment, the real return of Social Security is 1.7 percent today. That is what the return is if you live the average age and you pay in the average payments in your FICA tax, you and your employer. The average return on that investment is 1.7 percent. For some workers, it is actually going to be negative. Minorities, for example, young black men die at an age of, I think it is 61 years old now. That means that they pay in most of their working life, but unless some money goes to their spouse, they do not take any money out. So minorities on an average have a negative return on the money they pay into Social Security. The average is 1.7 percent.

But the marketplace, if you were to invest it in the marketplace, and in this chart I have a 7 percent real return, that means 7 percent over and above inflation, that is what the Wilshire 5000, the 5,000 stocks in the Wilshire index funds have returned between 1993 even with these last 3 bad years, still between 1993 and 2003 have returned a real rate of return of 7 percent, 7 percent over and above inflation.

So how do we capitalize on some of that, that better return to start giving retirees something better than the bad investment now they have in Social Security, something closer to that 7 percent? The U.S. trails other countries in savings as far as its retirement system that allows individuals to own some of that money. In the 18 years since Chile offered the personal retirement savings accounts, 95 percent of Chilean workers have created accounts and their average return up till today has been 11.3 percent return. Again, compare that to what Social Security is giving workers in America, Madam Speaker, that is, a 1.7 percent return. Among others, Australia has done it to allow personally owned accounts. Britain has allowed their workers to have part of their retirement in personally owned accounts. Switzerland and many other countries offer personally owned accounts that government cannot get their hands on.

This chart just tries to emphasize that there is no Social Security account with your name on it. I wanted to quote a government source, the Office of Management and Budget, that said when I was on the Committee on the Budget, testified that these trust fund balances are available to finance future benefit payments and other trust fund expenditures but only in a bookkeeping sense. They are claims on the Treasury that when redeemed will have to be financed by raising taxes, borrowing from the public or reducing benefits or reducing other government expenditures. This was the OMB statement before the Committee on the Budget.

Economic growth will not fix Social Security. Some people have said, well, if we can get the economy going, we will have enough revenue coming in to solve the Social Security problem. But because benefits are directly related to how much you are making, how much you are earning, so the more you make and the more you pay in, the more you get when you retire, so eventually it is going to catch up with you. I do this by these four blips. Social Security benefits are indexed to wage growth. When the economy grows, workers pay more in taxes but also will earn more in benefits when they retire. Growth. Makes the numbers look better now but leaves a larger hole to fill later. The administration has used these short-term advantages, I think, as an excuse to do nothing. I am not talking about the Bush administration; I am talking about the last four administrations that have found it easier to put off decisions on correcting and saving Social Security simply because it is a tough political issue. It is easy to go to seniors. We have almost two-thirds of our seniors now that depend on Social Security for most of their retirement income. So you can understand how it is easy to scare these individuals in an election. The demagoguery I think is unfair to the future of our kids and our grandkids who are going to have to come up with the tax money to pay future benefits.

This Congress is a political body. We are not going to cut Social Security benefits probably. What we are going to do is cut Social Security benefits in a way you do not really realize they are going to be cut. Like when President Clinton came in, we cut Social Security benefits by increasing the taxes that you have to pay on the Social Security benefits that government pays you. Over the years, we have come up with gradually increasing the retirement age. We have come up with provisions where we increase the tax rate that you have to pay into Social Security to accommodate today's needs to pay current benefits. If you are going to depend on politicians to correct the problems for Social Security, without some pressure and some questions from constituents around the country in this next year's election, I hope everybody would ask the Presidential candidates, would ask every candidate for the U.S. House of Representatives, would ask the one-third of the Senators that are going to run for reelection, what is your solution to save Social Security? It is easy for them to slide over and say, well, boy, we have really got to work on this, this is my top priority. Then follow up with a question, What is your priority? What is your solution?

The biggest risk is doing nothing at all. Social Security has a total unfunded liability, as I mentioned, of over $9 trillion. The Social Security trust funds contain nothing but IOUs. To keep paying promised Social Security benefits, as I mentioned, the payroll tax will have to be increased by nearly 50 percent. The payroll tax will have to be increased by nearly 50 percent, or benefits will have to be cut by 30 percent.

This is a record of what we have done in the past. And what we have done in the past might be an indication of the dangers we face in the future. In 1940, we had a rate for Social Security on your FICA tax of 2 percent on the first $3,000 you made. That is 1940. And so the maximum tax was $60. By 1960, we decided, well, we do not have enough money to pay benefits, we are going to increase the taxes again; so we increased it to 6 percent on the first $4,800 for a maximum of $288. By 1980, it got up to 10.16 percent. The base was up to $25,000. Now the rate in 2000 is 12.4 percent. In 2000, it was $76,200. Today it is $82,000 in terms of the base that you pay that 12.4 percent on.

As we are going to see by this next chart, most workers in America pay more now in the Social Security tax, as we have just continued to up and up the tax and up and up the base that that rate is applied to, so 78 percent of Americans pay more in the Social Security tax than they do pay in the income tax.

If nothing else, it should be of pocketbook interest for Americans to say, look, do not dig yourself the kind of hole where you are going to have to increase taxes on us again, or do not dig yourself the kind of a hole where you are going to dramatically play creative financing games to lower our benefits."

• <u>Recent Congressional Action Related To Civil Service Issues</u>

Below is a compilation of recent congressional action related to civil service issues. Please do not hesitate to contact us if you have any questions or would like us to provide additional information regarding any of the measures.

Partial floor speech of **Sen. Craig Thomas** (R-WY) in support of the President's Competitive Sourcing Initiative (from the *Congressional Record*, S10136, July 29, 2003):

"Every president for the last 50 years, Republican and Democrat alike, has endorsed the elimination of commercial functions in the federal workforce, but their plans were not vigorously implemented or enforced. Thus, easily half the civilian federal workforce is doing work that could be done by the private sector.

We should keep in mind that President Bush's competitive sourcing plan is far different than the Clinton administration's reinventing government initiative. President Clinton's plan established an arbitrary quota for eliminating 252,000 federal jobs--without any form of competition. By comparison, President Bush has set no such requirement for outsourcing, but has urged federal agencies to review their commercial functions and open them up for competition.

Over the past two and a half years, the Interior Department has noted that of the 1,600 full-time employees it has analyzed for competitive sourcing, not one federal employee has been involuntarily dismissed from his or her job. As the case of the Interior Department reveals, agencies try to reassign federal employees to higher priority, inherently governmental positions within their agencies. Some employees transfer to jobs in other federal departments, others take early retirement, or they go to work for a winning contractor.

The taxpayer is the ultimate loser when competitive sourcing is stymied. Inefficient monopolies that waste taxpayer dollars divert much-needed federal resources from our government's most pressing programs. Through reasonable competitive sourcing, I believe federal agencies like the Park Service can increase services to the public, while maintaining the valued resources we all enjoy.

Let's give good old-fashioned competition a chance."

Introduction of S.1522*
Title: A bill to provide new human capital flexibility with respect to the GAO, and for other purposes.
Sponsor: Sen. Voinovich, George V. [OH] (introduced 7/31/2003) **Cosponsors:** 1
Latest Major Action: 8/1/2003 Referred to Senate subcommittee. Status: Committee on Governmental Affairs referred to Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia.
*This bill only affects the GAO workforce. It includes an interesting provision in Section 7 called the "Executive Exchange Program." This would establish a program that would allow the Comptroller General to assign high-level, supervisory, or managerial GAO employees to private sector companies and to receive private sector employees in order to work cooperatively on projects of "mutual interest."

The Washington Report
418 C Street, NE
Washington, DC 20002
202-547-8530/FAX 202-547-8532
Contact: Sara Garland or Rachel Emmons
e-mail: sarag@greystone-group.com or rachele@greystone-group.com