

**The National Council of Social Security Management Associations, Inc.**

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SPECIAL HEARING REPORT**

August 26, 2003

**Senate Special Committee on Aging**

**Hearing: “Whose Trust Will Be Broken”?**

**July 29, 2003**

**Senators in Attendance: Chairman Larry Craig (R-ID) and Senator Debbie Stabenow (D-MI)**

**Panel I**

**David M. Walker, Comptroller General, GAO  
James B. Lockhart III, Deputy Commissioner, SSA**

**Panel II**

**Thomas R. Saving, Ph.D., Public Trustee, Social Security and Medicare Trust Funds  
Brad Smith, President and Co-founder of Social Good through Politics (Harvard University)**

**Opening Statement**

Sen. Craig spoke briefly before Walker and Lockhart presented their testimony. In his opening statement, Sen. Craig mentioned that the “Do Nothing” strategy of letting the status quo remain intact would not be beneficial to future generations. He expressed concern that “America’s youth” will end up paying more than their fair share of future costs. “What will happen to them?” he asked. Sen. Craig then mentioned a bipartisan letter (the text of the letter is included at the end of this report) that was sent to both the Republican and Democratic campaign committees, asking that the partisan, political battles over Social Security end in “cease-fire.” The letter called for members of Congress to “face up to the tough challenge” of ensuring Social Security’s sustainability.

**Panel I**

**David M. Walker, Comptroller General, GAO**

Comptroller Walker presented a new study conducted by the GAO called, “Analysis of a Trust Fund Exhaustion Scenario Illustrates the Difficult Choices and the Need for Early Action.” This report was conducted after Senators asked the GAO (at a previous hearing we covered in January) to calculate what would happen if nothing was done to address the projected trust fund shortfalls. Walker wanted to emphasize the following:

- Focusing on trust fund solvency alone is not sufficient. The program itself must be solvent.
- Social Security reform is part of a broader fiscal and economic challenge.
- Solving Social Security’s long-term financing problem is more important and complex than simply making the numbers add up.
- Acting sooner rather than later would help ease the difficulty of change.

Walker stressed that the “Trust Fund Exhaustion” scenario will place greater burdens on younger generations, leading to intergenerational tension. A decreasing fertility rate and the impending retirement of the baby boom generation will worsen this intergenerational tension.

By 2025, the labor force will have declined by about 33 percent. Walker pointed out that this would lead to slower economic growth and decreasing tax revenues. Presently, the trust fund takes in more money than it spends, yet by 2018, Social Security tax revenue will become “insufficient” to pay for future scheduled benefits. This will force the federal government to take drastic measures such as significantly raising payroll taxes, severely cutting federal spending, and/or dramatically reducing Social Security benefits for recipients. Walker cautioned, “Neither slowing the growth of discretionary spending nor allowing the tax reductions to sunset eliminates the imbalance.”

Under the “Trust Fund Exhaustion” scenario, Social Security benefits would have to decrease by 27 percent beginning in 2039, and by 2076, benefits would be reduced by 33 percent. In this scenario, benefits for younger workers would be significantly reduced while those born in 1955 or before 1955 would face modest benefit reductions beginning in 2038. Simply put, “doing nothing” now harms everyone in the end, but it will especially burden younger generations. Younger taxpayers will pay more, yet they will receive less on their investment.

The GAO’s report does not support any particular reform. The report does not say, “raise taxes”, or “cut spending,” or “cut benefits.” Raising taxes and cutting benefits “...could diminish individual equity by reducing the implicit rates of return the workers earn on their contributions to the system.” Investing in the stock market could increase individual rates of return yet it might expose individuals to risks and the loss of expected retirement income.

In closing, Walker stated, “It is my hope that we will think about the unprecedented challenge facing future generations in our aging society. Relieving them of some of the burden of today’s financing commitments would help fulfill this generation’s stewardship responsibility to future generations. It would also preserve some capacity for them to make their own choices by strengthening both the budget and the economy they inherit.” Walker emphasized that Social Security is not the only issue that must be addressed—Medicare and other entitlement programs also pose risks to future economic security.

### **James B. Lockhart III, Deputy Commissioner, SSA**

James B. Lockhart III based most of his testimony on the 2003 Annual Report of the Board of Trustees, which states that “pressure” will be placed on the trust funds beginning in 2008 and that by 2042 the trust fund assets will be exhausted. According to Lockhart, the trust funds would need about \$3.5 trillion TODAY in order to pay scheduled benefits for the next 75 years. In order to make Social Security permanently solvent, the trust funds would need \$10.5 trillion deposited now.

Under the “Trust Fund Exhaustion” scenario, benefits would be reduced by 35 percent beginning 2077. Younger workers would be “particularly hurt” in this type of scenario. “My 26 year old son who is here today, and who will reach the then normal retirement age of 67 in 2044, after paying Social Security for well over 40 years, will have his scheduled benefits drastically cut and every year in retirement they would continue to be cut. In contrast, based on life expectancy, we leading edge baby boomers will not see a benefit cut,” Lockhart stated.

To achieve solvency, tax increases of 22 percent or benefit reductions of 16 percent would have to be implemented by 2018. Noting that tax increases and benefit reductions are not appealing to either Republicans or Democrats, Lockhart explained that SSA has played a non-partisan role in reviewing other types of reform proposals, such as individual accounts, an increase in the retirement age, and changes to benefit growth. These other options show some promise, and they could help to lessen the extent of tax increases or benefit reductions.

In closing, Lockhart emphasized that the Social Security benefits of today’s senior citizens are “safe and secure.” He stated that SSA will continue to work with Congress to “...build a national dialogue into bipartisan consensus on how to strengthen Social Security for future generations.”

### **Question & Answer**

Following the first round of testimony, Sen. Craig commented that he is always made aware of how important Social Security is to citizens. “There is a high level of dependency on this program,” he told hearing attendees. Sen. Craig asked the panel to explain the present value of the trust fund versus what needs to be done to protect it. Walker and Lockhart both explained that the amount of money mentioned in the reports is needed TODAY so that it can start earning interest. Sen. Craig then asked about the effects of slower labor force growth and what can be done to encourage people to work longer. Lockhart explained that if payroll taxes are raised, it would discourage people from working longer—they would not be gaining any extra savings. “Payroll taxes are the most regressive taxes,” he stated.

Sen. Debbie Stabenow, to illustrate that Congress has taken fiscal actions that have indirectly contributed to problems with solvency, pointed out that Congress *has* “done something” about Social Security—it passed two large tax cuts that will make it more difficult to pay future obligations. Walker agreed. “Increasing spending and the tax cuts have made the bottom line

worse.” Sen. Stabenow then commented on the high deficit, that the largest single policy responsible for it is the recent tax cuts. “We are making choices that will affect people tomorrow.” Walker commented, “Clearly, Congress has done *some* things.” Continuing, he stated that Congress must consider both the tax and spending side of the revenue issue. Concluding her comments and questions, Sen. Stabenow reminded hearing attendees that Social Security is not just for senior citizens; it also provides income support for children who have lost parents and for the disabled.

## **Panel II**

### **Thomas R. Saving, Ph.D., Public Trustee, Social Security and Medicare Trust Funds**

Thomas R. Saving testified that the Trustee’s estimate of Social Security trust fund exhaustion does not fully take into account how Medicare and Social Security *combined* will begin to strain the budget in just five years. By 2010, Medicare and Social Security will “consume 1.5% of total tax revenues”. By 2020, that percentage will jump to 17.5 percent, and just five years after that, it will rise to 28 percent.

According to Saving, if current scheduled benefits and taxes remain unchanged, “...future generations will have to pay current generations’ \$11.9 trillion debt.” However, Saving argues that it will be very difficult for future generations to pay down this debt. “Between now and the time it takes for baby boomers to move through retirement, we will have to pay off most (of) the closed group debt. In doing so we must bear in mind that the retired baby boomers are to eat real food, live in real houses, drive real cars and use real hospitals, doctors, and nurses. The young will have to produce all this output, essentially paying the huge debt by consuming less while the retired baby boomers consume more of the nation’s output.”

Saving acknowledges that although reform is necessary, it will be expensive in the present, but less costly for future generations. If nothing is done, transfer payments from other programs may have to be used to pay for Social Security. He explained that an “alternative” to these types of transfers would be to have people accumulate more in their personal savings to pay for their retirement.

### **Brad Smith, President and Co-founder of Social Good through Politics (Harvard University)**

Brad Smith is a Harvard University undergraduate student who formed a group of students that developed a 5-point plan “...that remedies the fiscal insolvency and increases the equality of the current Social Security system.” He informed Sen. Craig that he had met previously with Sen. Kennedy (D-MA) and Sen. Hagel (R-NE) to discuss the plan. Smith was brought in to testify because he is a member of the future generation that will have to pay the price if Social Security’s solvency issue is not addressed now. According to Smith, his group’s plan includes “...investing a portion of the FICA tax, redistributing wealth to lower income and minority Americans, and ensuring that all retirees receive at least 100% of their promised benefits.” Smith

concluded his testimony by stating that the future generation would be grateful if the current generation began to address the solvency issue now.

### **Question & Answer**

Following the second panel's testimony, Sen. Craig mentioned that he has held a series of town meetings back in Idaho on the issue of Social Security. He said that he is always struck by how important Social Security is to so many people. He asked Saving if there will be an "immediate visual effect" of the projected Social Security trust fund depletion. Saving replied that, yes, there will be a gradual visual effect, which will become more evident beginning in 2003. He also said that Baby Boomers have been undertaxed, and that the generational transfer of Social Security has had the unintentional effect of causing people to invest less in capital stock because they feel that their retirement will be taken care of. Sen. Craig then asked about the possibility of raising taxes to help the Social Security trust funds. Saving reiterated that Social Security will be one of two troubling fiscal issues; Medicare actually poses a greater funding challenge. Taxes would have to be raised as much as 30 percent to address both issues.

Sen. Craig then concluded the hearing, stating that he and his colleagues will continue to investigate Social Security reform proposals.

### **Text of the letter mentioned by Sen. Craig during his opening statement:**

**CONGRESS OF THE UNITED STATES  
U.S. HOUSE OF REPRESENTATIVES  
WASHINGTON, DC 20515**

July 23, 2003

The Honorable George Allen, Chairman  
National Republican Senatorial Committee  
425 2nd Street, NE  
Washington, DC 20002

The Honorable Jon S. Corzine, Chairman  
Democratic Senatorial Campaign Committee  
120 Maryland Avenue, NE  
Washington, DC 20002

The Honorable Thomas M. Reynolds, Chairman  
National Republican Campaign Committee  
320 First Street, SE  
Washington, DC 20003

The Honorable Robert T. Matsui, Chairman  
Democratic Congressional Campaign Committee  
430 South Capitol Street, SE  
Washington, DC 20003

Dear Gentlemen:

We believe that strengthening Social Security is one of our most important domestic policy priorities. The long-term financial outlook of Social Security is deteriorating and, absent structural reforms, it will impose an unsustainable financial burden on today's workers and future generations.

The white-hot rhetoric surrounding Social Security modernization is creating an environment that punishes those who discuss reform options openly and honestly. The American people deserve a modernized Social Security system that provides true retirement security for all Americans, while reducing the pressure on future taxpayers and on other budgetary priorities.

This goal will only be achieved if we make a commitment to discuss the need for Social Security reform candidly. Unfortunately, this has not always been the case. Social Security has often been used as a weapon to achieve short-term political goals. Indeed, both parties seemingly compete to outbid each other in ruling out options for restoring the fiscal health of Social Security. It is time for the demagoguery to stop.

To this end, we pledge to defend candidates - Republican or Democrat - who support Social Security modernization and are willing to make tough choices to address the fiscal challenges facing Social Security. We will no longer turn a blind eye to political attack ads that accuse responsible reform advocates of wanting to dismantle Social Security or slash benefits of current retirees. These attacks are untruthful and poison the bipartisan cooperation that will be required to enact the necessary reforms.

In 2000, then-candidate Bush said, "Too many times, Social Security has been demagogued to frighten the elderly for political advantage. Too many candidates have traded on the problems of the system instead of correcting them, shoving them off for others to handle -- to some future generation, some other president and some other Congress."

We agree. It is time for this Congress and this President to solve the problems plaguing Social Security. Inaction is no longer an option. The longer we wait to tackle the necessary reforms, the harder the task becomes.

Although we all come from different political backgrounds and ideologies, and we have different ideas on how to modernize Social Security, we are proud to stand together in this effort to address Social Security and we encourage others to join us.

Sincerely,

---Lindsey O. Graham  
United States Senator

Charlie Stenholm  
Member of Congress

John B. Breaux  
United States Senator

Jim Kolbe  
Member of Congress

Rick Santorum  
United States Senator

Jeff Flake  
Member of Congress

Jon Kyl  
United States Senator

Nick Smith  
Member of Congress

Judd Gregg  
United States Senator

Jim DeMint  
Member of Congress

Larry Craig  
United States Senator

Todd Russell Platts  
Member of Congress

Calvin M. Dooley  
Member of Congress

Ed Case  
Member of Congress

Lincoln Davis  
Member of Congress

Collin C. Peterson  
Member of Congress

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