[redacted]

Statement for the Record by Max Richtman, Executive Vice President and Acting CEO
National Committee to Preserve Social Security and Medicare
10 G Street, N.E. Suite 600
Washington, DC 20002

House Committee on Ways and Means
Subcommittee on Social Security

Hearing on Social Security's Finances

June 23, 2011

As Executive Vice President and Acting Chief Executive Officer of the National Committee to Preserve Social Security and Medicare, I appreciate the opportunity to submit this statement for the record. With millions of members and supporters across America, the National Committee is a grassroots advocacy and education organization devoted to the retirement security of all citizens.

Chairman Johnson, Ranking Member Becerra and members of the Subcommittee on Social Security, the National Committee appreciates your holding this hearing to examine Social Security's current revenue streams, proposed changes to those structures and the impact they would have on the program, beneficiaries, workers and the economy.

As you know, 54 million Americans receive Social Security benefits each month. The benefits they receive from this program constitute a vital lifeline that is critical to their economic well-being. More than ever, today's retirees are heavily dependent on these benefits. Without this critical safety-net program, over half of all older Americans would fall into poverty. Approximately one-third of seniors have no income other than Social Security, and two-thirds rely on Social Security for more than one-half of their retirement income. Moreover, these benefits are quite modest with the average Social Security beneficiary receiving only about $14,000 per year; less than minimum wage.

While we are certainly concerned about the future solvency challenges facing Social Security, we remain alarmed at the various proposals currently under consideration that would dramatically cut benefits for current and future beneficiaries. The cuts most commonly being considered include raising the retirement age, reducing the annual cost of living increase, and revising the benefit formula through means testing or price indexing.

The argument for such cuts has been based on the deficits in the federal budget. This is a false argument. Put plainly, Social Security is not the driver of long-term deficits. According to the 2011 Social Security Trustees Report, Social Security has a dedicated stream of financing that keeps it fully funded until 2036. This means that there is little reason to be cutting benefits in this program in the foreseeable future. This fact is buttressed by the sentiment of the American people. Overwhelmingly, the polling data shows that a large majority of Americans— across all demographics and political affiliations— regard Social Security as a core benefit that should not be on the table as policymakers consider ways to reduce the deficit. In short, proposals to cut Social Security in the near future effectively take away benefits for which workers have already paid through their taxes.

The National Committee is mindful that the Subcommittee must weigh the various revenue options and their costs against one another and against the necessity of closing Social Security's long-term funding gap. However, we urge Congress to find the means to address Social Security solvency without cutting benefits for current or future retirees. What follows are descriptions of some of the proposals that have been advanced recently as options for cutting benefits and the concerns we have about the effects of these proposals on America's seniors.

Proposals to Cut the Cost-of-Living Adjustment (COLA)

Among the numerous options for cutting Social Security benefits, the notion of reducing the COLA is a perennial favorite, especially among those who want to reduce Social Security benefits to balance the budget. Although most policymakers have pledged to limit the impact of Social Security changes to younger workers who have time to plan for any changes before retirement, this option would cut benefits for all Americans, **including those who are already retired**.

Social Security is one of the few retirement programs that provide an automatic annual COLA to beneficiaries. The annual COLA is intended to ensure that Social Security benefits for retirees, survivors and the disabled maintain their purchasing power by keeping pace with inflation.

For the millions of seniors who rely on Social Security as their only source of income, and millions more who rely on it for at least half of their income, a cost of living adjustment is not a luxury, it's a necessity. Social Security's COLA is designed to help beneficiaries keep up with the constantly rising cost of living during retirement. The current CPI index, known as the CPI-W, while helpful, does not come close to staying in line with the skyrocketing cost of health care, which eats up a significant portion of every retiree's benefit.

The CPI-W understates inflation experienced by older people because it does not reflect the greater portion of seniors' incomes that are spent on healthcare, the cost of which is increasing at a faster pace that general inflation. About 27 percent of today's Social Security benefit, on average, is spent on Medicare Part B and D out-of-pocket costs alone, and this percentage is expected to continue rising over time.

Yet, despite the deficiencies of the current index, some in Congress are proposing cutting the COLA even further beginning as soon as January 2012 by moving to a chained-CPI formula. Switching to a chained-CPI will permanently cut COLAs for generations of retirees and the disabled, making it harder and harder for them to make ends meet. Recent analysis released by Representative Xavier Becerra has quantified the amount of the reduction associated with this change. According to this analysis, over time, the annual benefit cut will total almost $1,400.

The National Committee agrees that it is critical that the COLA be calculated based on an accurate formula. But if accuracy is the goal, Congress should change the COLA formula to factor in the large health care expenses most seniors face.

As a result of the recession, the past two years have yielded a zero COLA for the first time since the enactment of provisions that established automatic benefit adjustments for inflation. Although the Trustees are predicting a small COLA for 2012, for most beneficiaries the additional money will almost entirely go to cover the increase in their Medicare premiums.

The National Committee agrees that the current CPI-W needs to be replaced, but we believe that the chained-CPI index is the wrong way to go. Rather than producing an inflation adjustment that more accurately reflects the spending patterns of the elderly, the chained CPI moves in the opposite direction. Instead, the Congress should enact legislation that calculates the COLA by using the CPI-E, an index that more accurately reflects retirees' spending priorities that has been undergoing testing by the Bureau of Labor Statistics for decades.

Raising the Retirement Age

Another frequently discussed change to Social Security is to increase the age at which a retiree receives full benefits. Supporters of this proposal suggest that raising the age of eligibility for full retirement benefits to 70 or higher will reduce the deficit and increase Social Security's solvency. Any proposal to increase the retirement age is first and foremost a cut in benefits. For example, SSA's Chief Actuary estimates the proposal to raise the retirement age, included in the recommendations of the National Commission on Fiscal Responsibility and Reform, would reduce benefits by about 15 percent by 2080. Furthermore, it is important to note that the retirement age for full Social Security benefits has already been increased from 65 to 67 for anyone born in 1960 or later. This increase was enacted in 1983 as part of comprehensive legislation to strengthen Social Security's financing at a time when the program was facing an imminent financial crisis.

Proposals to increase the retirement age rest on the premise that, because people are living longer, they can continue working for more years. Although it is true that people, on average, are living longer, these longer life expectancies are by no means across-the board. Over the last quarter-century, the life expectancy of lower-income men increased by one year compared to 5 years for upper-income men. This is not surprising considering higher income workers are less likely to have physically demanding jobs and more likely to work in jobs with high-quality health coverage. Lower-income women have actually experienced a decline in longevity during that period. Yet the increases in retirement age apply to all workers, whether or not they are living longer.

In addition, increasing the retirement age would have a severe impact on workers who are not healthy enough to continue to work, even though they would prefer to do so, especially those who have physically demanding jobs. If the retirement age is increased, older workers will have no choice but to continue to try to work, unless they are able to qualify for disability benefits.

Finally, while many older workers may be healthy enough to work, jobs for them may simply not exist. Although studies have shown the many contributions older workers bring to their employers, most companies remain focused on the bottom line, which, due to higher health care costs, translates into a competitive disadvantage for older workers. Unless there is a dramatic change in employer attitudes or in the structure of our workforce, most workers will continue to retire well below their full retirement age. Any increase in the retirement age will only add to the difficulties older Americans will face in the years to come.

The National Committee is opposed to any effort to increase the retirement age. Workers who have paid into the Social Security system all their lives are entitled to a safe secure retirement. Increasing the retirement age will not further this goal.

Means Testing Social Security Benefits

Another option offered by those who want to cut Social Security benefits for the purpose of balancing the budget is to eliminate or otherwise limit the amount of benefits for higher-income individuals. In other words, they propose to means test Social Security. Changes of this nature assume many guises, ranging from benefit formula changes that make the amount of the benefit contingent on lifetime earnings to explicit means testing, where an individual's income determines the amount that is payable.

Changes of this nature fly in the face of the history of the program. It was created and has always been an earned right whose benefits upon retirement are determined by the contributions made during a person's working career. The relationship between earnings and benefits is a fundamental feature of the program, and one that distinguishes it from welfare programs and other non-earned entitlements. Means-testing Social Security would break this historic relationship and convert the program into a welfare program.

Those who would means-test Social Security argue that eliminating Social Security benefits for extremely wealthy Americans is an appropriate option for reducing the program's costs. Of course wealthy Americans can go without Social Security, and in fact there is no law that forces anyone to claim benefits. However, the wealthy make up only an extremely small portion of the American population. Disqualifying them from receiving Social Security will have little appreciable impact either on Social Security's solvency or the deficit. It will also take away a benefit that workers have paid for and earned during their working lives.

To make a significant change in Social Security's financing, benefits would have to be reduced for workers earning $60,000 to $70,000 annually—hardly wealthy people in anyone's book. In fact, a means-test included in the recommendations of the National Commission Fiscal Responsibility and Reform would reduce Social Security benefits for people with average lifetime earnings of only $43,000.

Americans understand that Social Security is their money, not the government's, and they hold that view irrespective of their financial situation at retirement. The National Committee believes that means-testing Social Security is an undesirable policy option that would break faith with American workers, would be unfair, and would undermine public support for the program.

Conclusion

Despite the impression left by some, the average Social Security retirement benefit today is modest— only $14,000 per year overall, with an average benefit for women of only $12,000. Any reduction in these benefits, whether from cutting the COLA, raising the retirement age, or instituting some sort of means test, will result in **real** cuts in benefit levels over time for both those retiring in the future and current beneficiaries. Cutting benefits should not be the first or even the last place Congress looks for budget savings or for strengthening the long-range financing of the Social Security program.

Sincerely,

Max Richtman

Max Richtman
Executive Vice President
and Acting CEO