Hearing on Understanding Social Security's Solvency Challenge

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C O N T E N T S

WITNESSES

Hearing on Understanding Social Security's Solvency Challenge

U.S. House of Representatives,
Committee on Ways and Means,
Washington, D.C.

The subcommittee met, pursuant to call, at 10:05 a.m., in Room B-318 Rayburn House Office Building, Hon. Sam Johnson [chairman of the subcommittee] presiding.

Chairman Johnson. Well, good morning and welcome to today's hearing on the difference between the Congressional Budget Office and the Social Security Trustees' projections of Social Security solvency.

Are you guys ready for some assault? [Laughter]

We all know how important Social Security is to the millions of Americans who rely on it, but Social Security is in trouble. And the longer we wait, the tougher it becomes to fix it. It is up to Congress to make the tough choices based on the best, most accurate information we can find and is available.

As Chairman of the Social Security Subcommittee, I take this responsibility seriously, and I am committed to making sure our children and our grandchildren can count on Social Security just like seniors and individuals with disabilities do today.

Nearly every year, we hold a hearing on the latest Social Security Trustees' projections to learn the latest about the challenges Social Security faces. But the Trustees aren't the only ones that look at Social Security's long-term finances, the Congressional Budget Office does too and so do the Dems, especially my friend.

Both CBO and the Trustees have been looking at Social Security's finances for decades, and as you can see on the screens today, the Trustees and CBO paint a very different picture of just how much trouble Social Security is in. But it hasn't always been that way, and just a few years ago, when CBO was still using many of the same assumptions as the Trustees, the estimates were fairly similar.

Today, CBO and the Trustees look at the same historical data but use different approaches to make different assumptions about the future, and those differences have a real impact. CBO and the Trustees don't agree on whether Social Security's finances got better or worse this year. They also don't agree on when Social Security's trust funds will be exhausted.

Last year, their estimates of Social Security's shortfall were over 60 percent apart. Now, they are over 75 percent apart. That is why, earlier this year, Chairman Brady and I asked CBO and Social Security's Chief Actuary to take a look at each other's projections and help us understand how they can come to such different views of Social Security's future.

Today, I hope you are going to tell us what you learned. With CBO and the Trustees so far apart, it is hard to know if a Social Security plan will actually make the program solvent. While a plan may be solvent, according to the Trustees, it might not even get close, if you ask CBO.

I know we have all looked at ideas on ways to fix Social Security, and while we may not agree on the best way to do it, we should at least agree that we need an accurate as possible picture of Social Security's financial health. Americans want, need, and deserve to be able to count on Social Security, and it is up to us and the Congress to make the changes so they can.

We count on the experts like CBO and the Trustees to help us figure out how best to do that, and we appreciate what you all do. So this hearing is about understanding why these two well-respected organizations have come to very different conclusions on just how much trouble Social Security is in. I look forward to hearing from our witnesses, and I am sure the rest of us do too.

And I now recognize Mr. Becerra for his opening statement.

Mr. Becerra. Mr. Chairman, first, great to see you back and look forward to having you finish up this year and come back ready to go again as well, and so thank you for holding this hearing. I thank our two witnesses for being here and am pleased that we are having another conversation about Social Security.

Probably the most important thing we should start off by doing is comparing the facts that we know versus the projections, which are speculation based on the experts' best guesses of what we know from the data, the data that is from the past and what we are collecting today. But what we do know is what has happened in the past and where we are today, so here are some facts.

Social Security has paid earned benefits to American workers, tens of millions of them, on time and in full for over three-quarters of a century. On time, in full, for over three-quarters of a decade. I have a chart that you can see now. Social Security currently has a $2.8 trillion surplus in its trust fund. That exists only because American workers have made tax contributions into the system and into the fund, and it is very simple math. You put taxpayer dollars in, and then they are drawn out, and you can see what has been drawn out. It is less than what has been put in.

At the same time, those of us who have savings accounts know the beauty and the magic of compound interest, and because those funds that the trust fund has held earn interest, even though it is small interest, low interest, it has earned interest, over a trillion dollars in interest, and so, as a result, we have a $2.8 trillion surplus today in Social Security to help cover the benefits of future retirees and future recipients of Social Security benefits.

That is not to say that Social Security doesn't face a challenge into the future as that surplus is consumed. I think we all understand that, and that is why we all, I think, bipartisanly, know we want to try to tackle this together. But Social Security in those 81 years or so has weathered 13 recessions. It has, as I said, paid in full and on time at all times and meanwhile has been able to accrue a $2.8 trillion surplus dedicated to the future needs of those workers.

What other program, private or public, can say this? There isn't a one. No other program that serves tens of millions of Americans can say it has that kind of a track record.

So now the projections. And let's recognize again: these are projections. They aren't fact. They aren't based on hard data. They are based on our sense of what is going to happen. And I must say: both CBO and the actuaries at Social Security have tremendously talented people who give us those estimates, but they are still just estimates.

Now, the Social Security Administration's actuaries have been doing this since the beginning of Social Security. The Congressional Budget Office has begun doing this over the last 10 to 12 years. I know that CBO has far more responsibilities than just monitoring Social Security. The actuaries are concerned about Social Security and Social Security and its impact through other programs, but Social Security alone, and so let's make sure we are looking at apples versus apples, not apples versus oranges, as we make our projections, because they are very important and, in fact, affect the lives of so many Americans.

We should mention that, as we move forward, I think most people agree that that surplus in the trust fund is going to be consumed over the next 16, 18 years, somewhere in that area, maybe a little longer. It depends on what economic growth is. But let's look at this in the broader context because it is not just about where Social Security is. It is where our government and our operations are moving forward.

So let me give you a quick example. Social Security provides services, benefits to 60 million Americans. Okay. Let me give you another comparison. Department of Defense protects all Americans. The Department of Defense has a budget annually somewhere right now of about $600 billion. Social Security, through the moneys it has collected and then paid out, we are talking about $900 billion that are sent out to Americans who work and earn their benefits. There is a dedicated stream of money for Social Security, the contributions that we mentioned before that people pay out of their paychecks, the FICA tax. There is no dedicated source of money for the Department of Defense. If we were to do a projection of what the costs for our defense would be over the same 75 years that we are trying to project for Social Security, we would find that we would be spending trillions upon trillions of dollars that we don't have. Now, we are going to find the money because we want to protect our Nation, but when we make the comparisons about what is going to happen to Social Security, let's remember that it has a secure source of funding. Department of Defense doesn't.

And so, quite honestly, the projected deficit or debt created by Defense would be greater than the projected deficit created by Social Security, and I could say that about others things. Tax breaks. We have a tax break for capital gains and dividends. It costs us about $100 billion a year. We don't pay for that. If we were to run the projected deficits created by providing tax breaks to folks who take advantage of capital gains and dividends tax cuts, that would be trillions as well.

That is all I would say, Mr. Chairman, as I close, that we want to put everything in perspective. We want to remember what we are out to do, and we are out to make sure that Americans can rely on something as secure as what Social Security has been for generations. That is our task. We can do that on a bipartisan basis.

And the first thing we should do is make sure that Social Security, the Social Security Administration has the resources it needs to actually administer its programs for the tens of millions of Americans who are paying into it and the tens of millions of Americans who are receiving their benefits after having paid into it.

With that, I will yield back the balance of my time.

Chairman Johnson. Thank you.

As is customary, any member is welcome to submit a statement for the hearing record.

And before we move to our testimony, I want to remind our witnesses to please limit your oral statements to 5 minutes, unlike what my friend did.

However, without objection, all the written testimony will be made a part of the hearing record.

We have two witnesses today. Seated at the table are Stephen Goss, Chief Actuary, Social Security Administration, and Dr. Keith Hall, Director, Congressional Budget Office.

Welcome, and thanks for being here.

Mr. Goss, please proceed.

STATEMENT OF STEPHEN C. GOSS, CHIEF ACTUARY, SOCIAL SECURITY ADMINISTRATION

Mr. Goss. Thank you very much, Chairman Johnson, Ranking Member Becerra, members of the subcommittee. It is a pleasure to be here today on this topic. Let me start with just saying that really reiterating a point that has been made: actuarial projections, actuarial valuations have been done for Social Security since actually before 1935, before enactment. They are critical, obviously, to you as lawmakers. At the start of the program, they were, and they are today again as we have to move forward with this program.

The annual Trustees reports required by law have been forthcoming every single year, starting 1941 through 2016, and a key point in the requirement in those reports is to speak to the actuarial status, which we do by 75-year projections. These are obviously quite different from a 5-year or 10-year budget projections; 75-year actuarial valuation is really quite a different animal.

In our office, we do have 45 actuaries and demographers. We also have eight economists and statisticians. Obviously, because we have been around for a while, we have immense experience. We also have access to all data internal to Social Security and throughout the rest of the government.

Now, what our office actually does in the Trustees report process -- we are not the Trustees; we are an office that works with the Trustees. We do develop the methods. We draft the reports, and we also propose assumptions to the Trustees every year.

Now, I can give you assurance as to the reasonableness of the assumptions and the appropriateness of the methods because the law also requires that the Chief Actuary put a statement of actuarial opinion in each report, and that has been there every year. We have not had exception to the assumptions per se of reports in the past.

Transparency, you are probably familiar, we have technical panels put forth by our advisory board. We have a full scope audit of our work in incredible detail. And we share everything with everybody who asks, including our friends a CBO. We share immense detail with them.

One of the hallmarks of what the Trustees have stood for over all the years -- and I am so proud to be able to say that I have been a part of this process -- is stability and incremental change, to only have incremental change. Every year, for our portfolio, we have got one more year of data. That is it. And so we always just do incremental change.

Now, let me -- oh, great. Okay. Next slide. So let me just show you here a picture of -- this is the so-called actuarial balance that you are familiar with and I think Chairman Johnson was referring to. It is really just an expression of over 75 years of what our shortfall looks like as a percentage of the payroll over that 75-year period.

The blue line is what we have been projecting in our Trustees reports for 2002 through 2016. Of course, it goes all the way back to 1941, and you can see sort of the relative stability. We think that is really important. You can see CBO has -- they started in

2004. At that point, the CBO projections were only half as large a shortfall as the Trustees were saying.

As of 2012, that sort of changed, and CBO is now projecting a much larger shortfall than Social Security, and it has been getting even larger and larger, which is sort of part of the point of this hearing, to sort of understand that, I assume.

On the next slide, I just want to indicate that there are really currently -- and this has changed over time. We have much detail in the written testimony of this. Currently, there are four main reasons why we have differences in the projections. It relates to birth rates; employment rates; earnings inequality; other, mainly methods. You can see here the cost rates. We have the cost rates going up because of the aging of our population, and CBO has a much, much larger increase in the cost rates as we go forward.

Now, let's just take a look at the birth rates. The birth rates historically have been around -- since 1990 to 2008, We had great stability. Now, the recession came along and affected many things, including birth rates dropping temporarily. This year, CBO has decided to alter their long-term assumption, so they have matched us in every year prior to this going back to 2004. They dropped down to 1.9 below the 2.0 that we and our Trustees are assuming. And I would just alert you to NCHS does birth expectation surveys of women in our population, and their birth expectations have been above 2 even throughout the recession. So we don't really believe that there is a basis at this point for dropping that assumption.

Labor force participation rates, one of the main economic variables, is a place where we have kind of really we think remarkable differentiation. We have expressed labor force participation rates here on like -- on assuming there is no change in the age distribution of the population. So we get a pure look of what is happening, what sort of employment and desire to be employed. And you can see that the recession again had a big effect. We had a big drop in the recession. We are assuming we will come back from that and then grow a little bit as people over 65 get more and more in the labor force.

CBO has a, I would say, fairly dramatic drop in the labor force participation rates, back to levels that were existent really before women were largely getting into the labor force.

And the last slide I have here of some real serious content about a difference for us speaks to something that is really important, the earnings concentration at the top. And you can see on this slide that, between 1983 and 2001, we had a rather dramatic drop in this taxable ratio, the share of all the earnings that we have covered under Social Security that are taxable, and that speaks to the earnings concentration. That drop was so dramatic over that period, but over the last 13 years, 2001 to 2014, the rate of decline in that has been only one-third what it was in the earlier period, real deceleration. It has really slowed. And our Trustees and we are projecting that it will further decelerate in the future.

I am hoping that is not optimistic. We think that is an absolutely reasonable and appropriate place to be. You can see the red line of where CBO is having really an acceleration to a rate of decline that we have not really seen before.

And, with that, I think I had better stop. I just want to say, again, thank you so much for the invitation, and we look forward to continuing these projections and working with you on the shortfalls for Social Security in the future.

[The statement of Mr. Goss follows: Transcript Insert]

Chairman Johnson. Thank you.

You are recognized, sir.

STATEMENT OF KEITH HALL, PH.D., DIRECTOR, CONGRESSIONAL BUDGET OFFICE

Mr. Hall. Chairman Johnson, Ranking Member Becerra, and members of the subcommittee, thank you for inviting me to testify this morning. For some time, both the Congressional Budget Office and the Social Security Trustees have projected that, if full benefits are paid under the formula specified in current law, Social Security spending would rise significantly during the coming decades.

In contrast, total revenues for the program are anticipated to grow more slowly than outlays. The faster growth projected for total benefits than for total revenues means that a shortfall in the program's finances is expected to continue.

Although both CBO and the Trustees project such a shortfall, we differ in our assessment of its magnitude. Over the next 75 years, if current laws remain in place, CBO projects that the program's actuarial deficit would be up 1.55 percent of gross domestic product. There are several ways to explain what the actuarial deficit represents. For instance, it would be possible to pay the benefits prescribed by current law and maintain the necessary balances in the program's combined trust funds through 2090 if payroll taxes were raised immediately and permanently by 1.55 percent of GDP, scheduled benefits were reduced by an equivalent amount or some combination of tax increases and spending reductions of equal present value was adopted. In 2017, 1.55 percent of GDP would be about $300 billion.

Another way to understand the magnitude of the shortfall is to consider the effects of policies that could be combined to address it. Last year, we estimated the effects of 32 options that would provide the actuarial balance. For example, gradually increasing the payroll tax rate by 3 percentage points over 60 years would improve the 75-year actuarial balance by one-half of 1 percentage point of GDP, as would reducing benefits across the board by 15 percent by the mid-2030s.

The Social Security Trustees' projection of the 75-year actuarial deficit is 0.95 percent of GDP, six-tenths of a percentage point less than CBO's projection. Two-thirds of the difference comes from four major inputs into estimates of the system's finances. First, the Trustees' higher estimate of earnings subject to the program's payroll tax explains 23 percent of the difference. Key components of nominal GDP growth projected by the Trustees -- higher labor force participation rates partially offset by higher unemployment rates, higher productivity growth, and higher inflation explain 22 percent. Demographics -- projections by the Trustees of higher fertility rates partially offset by lower immigration rates and of slower improvements in mortality rates explain 15 percent.

The Trustees' projection of higher interest rates, higher real interest rates in the long run -- that is, rates adjusted to remove the effects of inflation -- explain 6 percent.

The remaining one-third of the difference arises mainly because the approaches used by CBO and the Trustees to make estimates differ in various ways, even when the four major inputs are the same. For example, in CBO's modeling, payroll taxes collected from and Social Security benefits received by a retired worker are calculated on the basis of earnings projected for that person, thus ensuring consistency in the projections of payroll taxes and benefits.

The Trustees project benefits on the basis of earnings data for a recent cohort of beneficiaries who are retired workers. Those data are adjusted to account for future earnings growth and for other projected changes in the labor market. The Trustees project payroll taxes separately.

The exhaustion date of the programs combined trust funds is another measure of its finances. CBO projects that the trust funds will be exhausted in 2029. If CBO adopted the Trustees' projections of the four major inputs, it would project the trust funds to be exhausted in 2033, 1 year earlier than the Trustees project.

Each of the major inputs into our estimates is uncertain, especially over a 75-year period. We update our projections each year to incorporate the best information available from the research community as well as feedback on our analytical approach and other improvements in modeling.

As a result of updates in the past year, for instance, our estimates of the actuarial deficit in 2016 is slightly larger than it was in 2015. Contributing factors include lower projected interest rates, GDP, and taxable payroll amounts, changes to projected educational attainment and to the ages at which future retirees choose to claim Social Security, and the effects of the 1-year shift in the projection period. Those factors are partially offset by revised demographic projections and lower projected rates of disability incidents.

My written testimony provides much more information about the basis for CBO's projections. I am happy to answer any questions that you may have. Thank you.

Chairman Johnson. Thank you, sir. I appreciate your testimony.

We will now turn to questions, and as is customary for each round of questions, I will limit my time to 5 minutes and ask my colleagues to also limit their questioning time to 5 minutes as well.

We all know experts aren't going to agree exactly. In fact, they never do. You both represent well-respected organizations that do good work, but given these huge differences, I just don't know how you both can be right. Can either one of you tell me?

Mr. Hall. I am happy to start. Let me start out with how we are the same. Both projections show a system with significant financial shortfalls. Both CBO and the Trustees expect the combined trust funds to be exhausted in the second decade of the projection, but we differ in our estimate of the cost relative to GDP. The Trustees' forecast of costs is about 4 percent lower than CBO's, and their forecast of income is about 7 percent higher. So we do have a difference.

But I do want to stress that there is uncertainty. All projections are uncertain. And to give you an idea, we haven't done it this year yet, but last year, when we projected an actuarial balance of negative 1.45 percent of GDP, we did an analysis looking at the historical variations and the variables, and we put out an 80-percent certainty range. We think we are 80 percent certain within a certain range. That range was negative 0.8 percent of GDP to 2.2 percent of GDP. So that is a pretty significant range.

Mr. Goss. I would just want to add, on certainty, absolutely the only thing we know for sure is that any point estimate will be wrong with almost certainty in the future, so we really do come up with the best possible projection we can here. As I mentioned initially, I think one of the most important things that we try to go for is to have a stability and have only incrementalism in the changes because we understand that if you all are going to be making modifications to this program and other programs, having the goal posts moving around is really, really kind of a problem.

Dr. Hall mentioned something about the way that we project benefits and the way CBO does. I mean, I would just remind, back in 2004, when CBO had only half as large a deficit as we did, it was suggested by folks at CBO at the time that, in fact, we were projecting benefits to be too high at that time, and that is why we had a larger deficit. We believe that that differential kind of dissipated over 5 or 6 years. Now, through methodologies, it appears as though CBO is suggesting we are projecting benefits too low.

So we have been very, very consistent the way we are approaching things, and I think we have a pretty good track record on making projections. You will probably recall, for example, the reserve depletion dates for the DI program, which back at the time of the 1994 reallocation, we were projecting around 2016. Well, lo and behold, it pretty much came out to be around that before the reallocation that you all enacted just last year.

Chairman Johnson. Have you all changed the way you look at things?

Mr. Hall. We have over time. And I suppose our philosophy is a bit different. Our goal is to be independent and objective and offer the best estimate available, and so we look at a lot of things. We look at historical data. We look at other people's forecasts. We vet things with our panel of advisers. We look at what the Social Security technical panel says. And we look at literature. And we make judgments based on this. And things change over time.

I think one of the difficulties right now is coming off the Great Recession, in general, some things have changed permanently; some things, well, will not change as much. So part of what one has to do, for example, in economic forecasting is sort of decide what is going to revert back to prior to the Great Recession and what has been a permanent change, and of course, we have some significant differences on the demographic side.

Chairman Johnson. Well, you all just started doing these in the early 2000s. What made the CBO start doing the estimates as compared to the Trustees?

Mr. Hall. Well, the short answer would be we were asked to, that there was an increased interest and concern with the long-term budgetary implications of current laws. And part of it, of course, is that it was a prelude for us to evaluate any legislation that is aimed at trying to improve the Social Security balance.

Chairman Johnson. Well, you talk about a lot of assumptions used in the CBO Social Security estimates. Are these assumptions only used in Social Security projections, or do you use them in other estimates as well?

Mr. Hall. Yeah. Actually, our assumptions are kind of mixed in with a lot of things that we do. For example, the 75-year Social Security projection is built upon the long-term budget outlook projection that we make. So we go from 75 years down to 30 years. We make sure those are consistent. And then that 30 years is based on our 10-year economic and budget forecast. We do that three times a year.

So all three of these things are consistent, and in fact, when we just do regular work on the 10-year budget forecast even, we spend a lot of time looking at changes and variables and changes in things that we think are going to impact the long run.

For example, one of the things that we looked at most recently over the long run is we have done a significant amount of work on labor force participation, and we think that there is looking like there is some significant decline in labor force participation based on cohorts. So, for example, if you look at people who are age 25 to 34 right now, their labor force participation is significantly below other cohorts. Baby boomers had much higher participation, and part of what looks to us like is that that is going to maybe be a permanent impact on labor force participation going forward. So we do these things all the time. It is all mixed in, but we try to be consistent.

Chairman Johnson. Okay. Well, thank you very much.

I will recognize Mr. Larson.

Mr. Larson. Thank you, Mr. Chairman, and let me add, it is great to see you back. What a privilege to serve on a committee that has two American iconic heroes in Sam Johnson and John Lewis. We should all take stock in that, and always good to see you back.

Chairman Johnson. Thank you.

Mr. Larson. And I think it is a great hearing. I think it is going to give us an opportunity to explore, and I have more of a statement to begin with and I hope which will follow with other questions. But the last time we really constructively as a Congress really looked at Social Security in any meaningful and significant way was in 1983.

This is an insurance program, an insurance program. People talk about this as though it is an entitlement. Yes, you are entitled to your Social Security because you paid for it. It is an insurance program. Has anyone's -- in this audience -- insurance premiums gone up since 1983 when this was last touched? I dare say that everyone's hand in the audience, if I requested, would go up. Yet Social Security has not been adjusted and yet has not missed a payment, as Javier Becerra was pointing out earlier on.

So what we have here is there are statistics, as has been indicated by two venerated groups, both in the Social Security actuaries and CBO; one doing it over a long period of time, the other since 2004, but both with outstanding results. I think what the American people want to see is, what is Congress going to do? Because you both say that this is based on projections, and those projections depend upon what we are actually going to do.

And I think what we need to do, it is kind of like what the AARP puts out there, you have got to show what your proposal is to -- with regard to Social Security. We have to strengthen this program. We have to strengthen it for a number of reasons, largely because of what happened in 2008 when people saw their 401(k)s become 101(k)s, but the only program during that time that remained consistent was, of course, Social Security.

So it is incumbent upon us to make sure that it meets those actuarial standards so they are solvent for the next 75 years. And not only do we have to -- and we are constantly arguing up here about whether we have to cut it or increase the premiums, as I like to say.

I don't think we can afford to cut it. All you have to do is go back home and look at your constituents and find out the situation that they find themselves in. What we need to do is expand it and then expand it in a way that makes sense for the American people.

We have a proposal out there that says we should increase the funding by what people receive by 2 percent across the board. We should make sure that no one retires into poverty who has participated in the program. We should make sure that our cost of living, our COLAs, reflect actual cost, and you know what else? We should give people a tax break. We can do all that, but we would have to increase the premium.

Well, how would you increase the premium? Well, under our proposal, we would scrap the cap. Over-$400,000 people would pay, and they would receive more benefits for what they pay in. And then what I truly believe, because there has to be skin in the game for everybody, we increase the contribution by 1 percent, but then phase that in, just like any insurance actuary would do looking at this program, increase it by 1 percent, phase it in over 25 years, which would be .05 percent a year; or for a person making $50,000 a year, be 50 cents a week; or if you bought one of these Starbucks lattes for $4.50, that would represent 9 weeks of Social Security payments.

My point is this: This is an insurance issue that is very solvable actuarially by just making sure that we adjust premiums that haven't been touched since 1983 but do it in a way that is not going to burden anybody; 50 cents a week for someone making $50,000 a year is not going to be a significant burden. And when you look at what we get in terms of Social Security, most importantly its guarantee, then we can combine the genius of what we have through insurance, a private sector concept, tax cuts, which I think everybody on the committee enjoys, and then the certainty for which people rely and depend on this, including the number of quarters that you put in, especially if you are female and you have less quarters. This will allow an equalization of that, and I look forward to my questions. I realize I ran over.

Thank you, Mr. Chairman.

Chairman Johnson. Thank you. Mr. Dold, you are recognized.

Mr. Dold. Thank you.

I look forward to going over to Starbucks with you, John. Absolutely.

Mr. Goss, I wanted to just start with you, and again, I think those that are tuning into the hearing and trying to understand what is going on and the difference between what is happening at CBO and at Social Security, your office really supports the work of the Trustees, but ultimately, it is going to be their report that is reported out. So can you talk a little bit about your office's role in the process and how decisions and assumptions are made, and do you make recommendations to them?

Mr. Goss. We definitely do. Thank you very much. For every Trustees report, the process within the Trustees working group starts out with our recommendations to them. We do not disclose them to you or to anybody else, but we do make recommendations to those within the working group and to the Trustees. There is much discussion and opining and then a decision as to what the Trustees want to go with.

I would suggest that there is usually pretty much similarity between what we recommend. And the one thing that I can assure you is that if ever the Trustees' process ends up resulting in as assumption that is really dramatically or unreasonably different from what we believe should be the case, we will report that to you in the actuarial opinion.

Now, in the process of determining these assumptions --

Mr. Dold. Yeah.

Mr. Goss. -- we get incredible amounts of input. For example, labor force participation rates that were mentioned just a moment ago, labor force participation rates, we have talked over the past year or two to folks from the Federal Reserve Board who have sort of fostered the notion of looking at cohort analysis, and what is really happening in this recession is quite remarkable. People under 25, labor force participation rates, which are really just the extent to which the American people are trying to get a job to feed their families, So the labor force participation rates under age 25 have really dropped a lot in this recession. Cohort analysis, by some who have done this, suggested those cohorts are permanently affected, damaged, whatever, and they are going to work a lot less at all higher ages in the future.

We kind of don't believe that. We are not projecting that kind of notion into the future, and our last two technical panels, by the way, have suggested that our projections of labor force participation rates are too low. They have recommended that we go even higher. We, the Trustees, and we have recommended to the Trustees, we have collectively resisted the idea of getting more optimistic about labor force participation rates, but we really do not believe that labor force participation rates should be taken down to the levels of the early 1980s, before women were largely engaged in our workforce.

So we just think that that is kind of an interesting thing. We look forward to dealing with Keith and company more about how they come up with that assumption.

Mr. Dold. Okay. But the labor force participation rate is one of the key ones that you are looking at.

Mr. Goss. It is one of the major ones. At this point, probably one of the three biggest ones, other than methodological differences, as Dr. Hall mentioned, and that is something that is a very interesting area because our methodologies are really quite different.

Mr. Dold. Sure. I look forward to diving into more of that, but I did want to talk, as we look at the administration, we are coming up to the close of this administration, and we still don't have public Trustees, right. So that is obviously an issue. There are six Trustees, two of them public Trustees.

The next Trustees report is going to be due in April, just when we are going to have a new administration coming in, about the same time they are getting settled. And these are big reports that can take almost a year to produce. So who is making the decisions on that now, and what happens if the new Trustees disagree with some of the assumptions that are made in the report?

Mr. Goss. Well, for better or for worse, I have been around for a few transitions of administrations.

Mr. Dold. We will say that is better.

Mr. Goss. Thank you very much. Experience counts, hopefully, a little bit.

We have gone through a number of transitions, and as you would imagine, we are required, we really have an obligation with our current Trustees and with our staffs to be working toward the next Trustees report, and we will be working on developing assumptions, developing projections. However, when we have a new administration come in, whoever it is, and if they bring in different people, they get people confirmed, whoever they bring in, if they have different views, we will move in the direction of the different views because, as you mentioned, this is the Trustees report, and they do get to make the call on what assumptions we absolutely have.

So if new Trustees come in and they bring in new people and they want to do things differently and have different assumptions, clearly, the Trustees report will reflect that. If they make dramatic changes that we think are unreasonable, though, again, we will report that in the actuarial opinion at the end of the report, so we can give you that assurance.

Mr. Dold. Can you shed a little bit of historical light? Have you seen that happen from administration to administration where there has been real changes from one trustee -- set of Trustees to a second set?

Mr. Goss. I think the wonderful thing is that when people put that hat on, the trustee's hat, regardless of their politics, we have been really impressed, I have been impressed for a few decades now, at how people take that so seriously because they know how important this program is. And we tend not to have a lot of sort of flip-flopping around in terms of the assumptions that people get. They really get it is a long-term projection; incrementalism really matters. And we really had tremendous consistency across the different people coming in. We sometimes have presentational issues that have changed from one administration to the next, but the basic assumptions that we used have really been quite consistent.

And I think having public Trustees really helps on that because we have really not just one party represented on the Board of Trustees.

Mr. Dold. Mr. Goss, thank you.

My time has expired, Mr. Chairman.

Chairman Johnson. Thank you.

Mr. Blumenauer, you are recognized.

Mr. Blumenauer. Thank you very much, Mr. Chairman.

And I appreciate the thrust of the hearing to be able to get into some of the details, not only because how serious the deficit -- or how immediate, I guess, the deficit we have to contend with really serves to, I think, constrict what Congress does. If it is more immediate and bigger, that might be a greater incentive for action, although given some of past congressional behavior, it might inspire more paralysis because it is really big and complex.

But piecing out the differences in terms of work force participation, interest rates, what is going to happen with payroll, I think is a very important picture for us to be able to have the better understanding of the workings of the economy.

And, basically, I am of the opinion that the 4 or 5 years difference that you have in terms of the exhaustion of the trust fund balance, while not insignificant, really shouldn't color what we do because I think all of us appreciate that if we are getting down to the wire and it is 2 and 3 years and we are running a persistent 8 percent deficit, that makes the challenge more difficult, and it has ancillary effects that are going to be more difficult for the people who follow us. And no one is going to tolerate a reduction of a quarter in Social Security benefits. Ain't going to happen. But what we do to avoid that and when we do it matters a great deal.

I am hopeful that this inspires us to be able to think about ways to move a little faster. I have opined in sessions before that I would love for us to come together and declare a national Save Social Security Day sometime early in the next Congress where we invite people to come together and look at this information, where we invite people to come together to look at what the choices are.

And I have tried this experiment at home in high school civics classes, retirement homes, rotary clubs, and I find that most citizens, even without using some of the sophisticated calculators that are available to us, most citizens are willing to take action. They are willing to make a little adjustment. They are willing to pay a little more or look at adjustments in the long term for some benefits that they think maybe some people don't need.

They don't want to undercut the integrity of this service that is becoming more critical for more people. Certainly, there are lots of people in Congress can continue serving indefinitely. I mean -- but for a lot of people who have more demanding positions in the workplace, whose life expectancies are actually shortening, we need to be careful about how we maintain what they get.

I am hopeful that this is something that we might be able to come together to promote because I think the American public would like to roll up their sleeves and help us discuss it. I think they can help us develop alternatives that are not draconian and that could be phased in earlier in a way that would avoid the cliff, avoid disruption, and avoid making this one more political battlefield. We don't know -- we don't need any more political battlefields, and we don't need any unease for the people who rely on this service.

I wondered if either of you could help me understand. You talk about assumptions about covered payroll. How does this change if we are looking at total Medicare payroll in terms of making a modest adjustment to what tax people pay if we get rid of the arbitrary limit and we are operating on Medicare wages?

Mr. Goss. I would just offer if we were to go that direction, that hypothetical -- and by the way, we have on our Web site estimates for several proposals to eliminate the taxable maximum or raise it to some higher level -- that basically would eliminate, I think, to a large extent, if not completely, the difference that we have in our projections about the share of earnings that will be dropping down below this taxable maximum; that is, the share that we are concentrating much more so up above. The earnings concentration would not matter nearly as much if we did not have the taxable maximum as, you are exactly right, as Medicare does not at this point.

Mr. Blumenauer. But I should go to your Web site.

Mr. Goss. Yeah.

Chairman Johnson. The time of the gentleman has expired.

Mr. Blumenauer. Thank you.

Thank you, Mr. Chairman.

Chairman Johnson. Can you all send him an answer in writing?

Mr. Goss. Absolutely. We can even get you -- right after the hearing, we will give you this stuff.

Mr. Blumenauer. Thank you, Mr. Chairman.

Chairman Johnson. Mr. Buchanan, you are recognized.

Mr. Buchanan. Thank you, Mr. Chairman.

I want to thank both of our witnesses today. They keep us focused and dialed in, and this is very good information.

I can tell you that the numbers I hear, a third -- I am from Sarasota, Florida, and in Florida, 237,000 recipients count on Social Security just in my district. I think it is second highest in the country. But a third of the people that receive Social Security, that is all they have. There might be a different number; another third, it is something but not enough, I mean, or whatever. And then I read the other day, 62 percent of Americans don't have $1,000 in the bank, so that is why -- it was out of USA Today, I think, I read that, but I had to read it twice because it is hard to imagine.

But the bottom line is I agree with my colleagues totally. We have got to find a way to work together on a bipartisan basis to look at Social Security long term, the viability, whether it is 5 years short or not, and we have got to find also the other -- even the bigger issue is Medicare in terms of dealing with that from a viability standpoint.

And then the other thing is just, you know, we all know the number, 10,000, 12,000 people a day turn 65 for the next 30 years. I can see -- you know, come to Sarasota; you see a lot of people at 90. My mother-in-law just celebrated her birthday, 97. Her sister is 103. Another one is 101. You see a lot of that in Sarasota. I don't know about up north, but you see it down -- you see it down in the Sunshine State, I can tell you that much.

Mr. Larson. They are from the north.

Mr. Buchanan. I am just telling you. I did want to touch on two things. One is COLA. There is a projection -- last year, they didn't get an increase. I do a lot of townhall meetings. It is a big issue. I can't believe how big it is, but it is a big issue. I think one of you is projecting .2; the other one is .6. What is the difference, if you could do that quickly because I have one other question, comment?

Mr. Hall. The big difference for us is that our economic projection was done well in advance of the long-term budget outlook, so we didn't have very much data for this year. That is the big reason why we were so low.

Mr. Buchanan. Okay.

Anything?

Mr. Goss. Our projection was actually developed sort of very, very early in this calendar year -- because, as Chairman Johnson mentioned before, it takes a while to get the reports together after we get all the assumptions together.

Mr. Buchanan. So what are you both projecting as the COLA rate next year?

Mr. Goss. We, in the Trustees report, were projecting a .2 percent. And remember, we were in the hole on the CPI --

Mr. Buchanan. Okay.

Mr. Goss. -- for the last COLA, four-tenths negative change in the CPI, so we didn't have a COLA. So we have to make up that four-tenths and have even more increase in the CPI in order to have a COLA.

Mr. Buchanan. Okay.

Mr. Goss. Our Trustees report at the time was suggesting we would have a net .2. At this point, our best guess is about .4, which wonderfully is right in between --

Mr. Buchanan. Right in the middle --

Mr. Goss. -- where CBO and --

Mr. Buchanan. -- split --

Mr. Goss. -- our best guess at this moment -- by the way, it is through September of this year -- the prices -- so it is pretty much locked --

Mr. Buchanan. Let me say to you all this one other comment I want to make, and I am an optimist by nature, but I do have to put this out here because I have seen too much as a guy that has been in business about being overleveraged. You know, I was born in Detroit, grew up in the Detroit area, great American city. It is on the comeback, but it was in bankruptcy. I looked at General Motors, iconic. A lot of our friends, you know, worked at General Motors. Both of these, the city and General Motors, a lot of their benefits got cut.

So, when I look at this whole thing, and I -- you know, about the ability to pay, it concerns me when we got -- we used to be at, when I got here, was $8 trillion and change, $9 trillion, now we are close to $19 trillion, $20 trillion in debt. Does that concern either of you, or are we just kind of kidding ourselves? I mean, Social Security has had a great history and great ability to pay, but it does concern me, because I have seen a lot of great iconic companies, and I have seen big cities, and just the ability to pay. And what happens to those Americans -- a lot of them were family and friends of mine -- a lot of their benefits they were counting on all their life, paid in for 30 years, earned it for 30 years, and then got shortchanged at the end.

And just in terms of looking forward -- and I know in the trust fund, there is no money basically. You are counting on the ability of the government to be able to make its commitments. What is either of your thoughts quickly because I am sure my time is running out? Mr. Goss.

Mr. Goss. I would just say that really you cannot compare Social Security and its solvency challenge to the Federal Government as a whole, because the Social Security trust funds really are so very different. The Social Security trust funds cannot go negative. There is no borrowing authority. So we do have $2.8 trillion. That is small relative to the long-term obligations it brings us. So it is a pay-as-you-go basically system, and really, I think the assurance that I would suggest that the American people should take about having the benefits come forward is your commitment.

We are absolutely confident that you, people on the Senate side, will maintain this program for the American people who elected you because it is so important to them, and that really is the ultimate --

Mr. Buchanan. Mr. Hall, quickly, do you have any comments? I just would like, both of you, to just get your thoughts on it.

Mr. Hall. Sure. Well, certainly, by assumption, in our forecast, and we assume that you are going to live up to your commitment on this. We have never done a scenario, but if we did a scenario where if you all did not and let the trust funds go down, we would have a pretty significant impact on not only the budget but probably economic growth and a lot of the economic numbers that would be shocking probably.

Mr. Buchanan. Well, I thank both of you.

And I yield back.

Chairman Johnson. Thank you.

Mr. Smith, you are recognized.

Mr. Smith. Thank you, Mr. Chairman, and thank you to our witnesses here today. Obviously, despite the differences in various reports, both of you point to some realities that are out there.

Mr. Goss, your office routinely produces memos on Social Security reform plans introduced by Members of Congress and others. Along with information on Social Security solvency, these memos also show the effects of any benefit changes the plan makes. However, the memos do not include any information about additional taxes an individual pays due to the plan. Yet some plans, the tax changes are the big story, so why not show these effects? And certainly I would add that tax changes affect workers as well. Can you respond to that?

Mr. Goss. Very, very good point, and we have been talking with members of your collective staff about changing this. Really, I think, essentially, the reason for this has been that, by and large, when there would be a change in revenue, most proposals through change in revenue would be to simply change our 12.4 percent tax rate, 6.2 percent paid by the employee, to raise it to something higher; or for people who have earnings above our $118,500 taxable maximum, to start applying the tax rate there as opposed to not. And that is relatively straightforward. That is a lot easier to comprehend what is going on there and just sort of understand that than it is to say, if we change the normal retirement age by a year, what does that really mean for benefits?

I think we really should have -- point well taken. We are working towards developing sort of a comparative table that would show something about revenues as well, because some of the revenue proposals can get more complicated, as many people on this bench today know. So we are going to move toward that.

Mr. Smith. I appreciate that.

And this discussion we are having today, I think, is especially productive. I would share the sentiments of my colleague from Connecticut that it is an insurance program, and I would add that we should probably keep it that way and be mindful of those dynamics of what an insurance, you know, structure is, and what it is not.

But back to the labor force participation. I mean, you are suggesting that the labor force participation goes back up. What assumptions would that be based on?

Mr. Goss. Well, recessions have happened before. Our most recent recession was a special recession. Many have opined it is sort of the worst thing since the Great Depression, but this is a strong country. We have recovered from recessions before, and we assume absolutely we are going to recover from this recession.

Being as deep and strong a recession as it was, we are not surprised that it is taking longer than the recovery from those past recessions. We are pretty confident it is going to keep coming back. On the labor force participation rates, the place where they have been hit most are people who are younger. Some have opined that the people under 25, the share of them that are either in the workforce or in education hasn't really changed a lot.

So we are pretty confident that, as the economy gets stronger, as more jobs become available, that people will get back in the labor force and want to work, and most particularly, people under 25 who have been out of the labor force in this bad recession, we do not believe that as they get to be 35, 45, and 55, they are going to be permanently not in the labor force. We don't see how they can possibly have lower participation rates in the future really than cohorts in the past.

And the only reason that we have our overall age-adjusted rate going up is because that includes people over 65. People over 65 in the future, I will attest to this, I hope, we believe are going to be living longer. At any given age, they are going to be living healthier, and they are going to be more capable than people at those ages in the past.

That being the case and knowing they are living longer, they know they are going to have to live -- they are going to have to work longer to build up their nest egg, and they will have a greater ability to do so. So we believe that all these things suggest we will not only recover, because people want to eat, they need to have a job, and that people at older and older ages will be wanting to work somewhat longer in the future and have a greater ability to do so.

Mr. Smith. So what growth rate would you suggest would -- I didn't see it here, would trigger a return to a labor force participation rate that you find to be optimal?

Mr. Goss. Well, if we look at labor force --

Mr. Smith. And probable --

Mr. Goss. -- participation rates sort of age by age, which I would suggest is the way to look at it, if you say our population is changing its age distribution and you allow that to affect what you are saying is the labor force participation rate, then that will be very difficult to understand what is going on, could be misleading. So we will look age by age, look age-adjusted, and we basically are returning to essentially the labor force participation rates we had at younger ages, below 65, as in the past. But for higher ages, over maybe 55, because of the longevity factor, because we all agree that people are going to be living longer and living healthier, we believe that people will have the ability and even the need to be working longer in the future.

I mean, there has been considerable mention here of defined benefit plans by large corporations have been on the wane for quite some time now, so people, we believe, are understanding and will be understanding a greater need to work longer in the future.

Mr. Smith. Thank you.

Thank you, Mr. Chairman.

Chairman Johnson. Mr. Kelly, you are recognized.

Mr. Kelly. Thank you, Mr. Chairman. It is great to see you back.

Mr. Larson, Mr. Blumenauer, it is good to be with you all.

Because what you are touching on, now, the two of you, the one thing you do agree on is that this thing hits a wall, one 5 years later than the other. But you both agree on that, and you both come down to it is just because of -- and just maybe explain it, very short, where does the revenue for Social Security come from? How are the benefits paid? Where does the money come from?

Mr. Hall. Well, obviously, it is from the labor force, the number of people working.

Mr. Kelly. Right.

Mr. Hall. We have pretty different forecasts of GDP growth, I think, nominal GDP growth. That is one of the big differences and, of course, the labor force participation. We talked about that a little bit, but I didn't mean to be misleading when I pointed out that one of our differences is that the historically low levels of labor force participation by almost all ages below baby boomers, but the biggest difference is we see a bigger impact of the retirement of baby boomers.

We see a bigger age impact. So, for example, right now, we look at labor force participation about 67.1 percent. We think it is going to go down to 62.5 percent and then down to 60 percent in 10 years. That is a pretty big drop, and those are baby boomers retiring. And to give you some idea, right now, those 65 and older are about 25 percent. They are about -- of all the people who are working age 20 to 64, the people above -- 65 and above is about 25 percent of those folks.

In 75 years, it is going to be about 50 percent of those folks. So it is this demographic, this aging, that is having the biggest impact on revenues going forward, and then, of course GDP growth. We have really lowered our GDP growth for --

Mr. Kelly. Yeah, I think there is confusion sometimes when I am back home -- and it is almost 40 percent of the people in the district that I live receive Social Security benefits.

Mr. Kelly. Now, not all those who receive benefits are actually donors to the fund, but we have changed that dramatically from what Social Security started at to what it is today. In other words, who puts money in and who gets to take money out, that also distorts the model.

But I think the confusion does come down to when you talk about the participation rate, the money does not come from the government. The money comes from working people. That is where the money comes from. Also, this is so basic, and I think when we talk about these things, we make it something that is really complicated that is not that complicated. You either have more money going in and less money going out, or if there is too much money going out, you have got to get more money going in. It is just that simple. And, unfortunately, when they first devised this plan, people weren't living as long. For somebody my age, I am glad that they were wrong, but we still have a problem with revenue. It doesn't change.

A dynamic and robust economy is the only thing that fixes this, right? Is there something I am missing here? Because, unless we get more people working, we are not going to have the revenue that we need. And so when we talk about all these marvelous plans and what we could do to save Social Security, the one thing we better do is find people jobs. It is just that simple. My whole life -- listen, I own a business; 12.4 percent of every paycheck went into Social Security, right? That is just by law: 6.2 from the owner of the business, 6.2 from the person out there working. So we play this ring–around–a–rosy about who is going to do what. I tell you what to do: Get people back to work. Give them a chance to get up in the morning and go to work. They will put money in. They don't have any problem with helping to fix it, but they have to have a job to do it.

So a dynamic and robust economy is the whole answer to this. And while we talk about how we could adjust the plan, I would rather fix it at the source. And that is the people who put it in. I know you guys do marvelous work. And, believe me, the Chairman said we need to get ready. Here is what we need to get ready for: We are all partners in this. We are joined at the hip, not as Congressional people and you as working. As Americans, we are joined at the hip. Why we can't see that -- and I don't want people to think that somehow there is somebody in a beautiful knight's outfit on a white charger is going to come running and save the day. It is going to happen with working people and Congressional leaders and government people who work together to fix it. So I know you are 5 years apart, but there is one thing you agree on.

Mr. Goss. Could I just add on the labor force participation rates --

Mr. Kelly. Yeah, sure.

Mr. Goss. Dr. Hall was mentioning what we would call sort of like an overall or a gross participation rate. It is really, really important, because we do have demographic assumptions, and we have economic assumptions, and separating them is really important.

No question our population is aging in the future. We are going to have a greater share of our adult population over 65. That is absolutely true. But when we talk about labor force participation, if you just want to look at it sort of all the 16 and over, a smaller share will be working, yes, because a lot of people will be over 65, more than in the past. If we really want to talk about the tendency for people to be in the labor force, though, we have to look age by age or taking out the age distribution effect. And that is what we have really done in these projections, and that is where we are showing that we are going to be basically stable with a little bit of rise in the future because people living beyond 65, we believe, will be healthier and living longer and have a greater ability and that we will return after the recession, for people under 65, back to levels similar to what we had before the recession. If we don't, then we --

Mr. Kelly. I get it. I get it. The number one problem that people have who are trying to hire people is finding people who are qualified to do the jobs that are available today. It starts at a level of educating people. I sat on a school board, and I would go in and talk to guidance counselors. You know what they talked about? They talked about the kids who were going to Harvard, the guys who were going to Yale, the guys who were going to Princeton. I said: Don't tell me about that. Tell me about the kids who aren't going anywhere. Tell me about the kids who, when they graduate, have no place to go. Are we getting them ready for any jobs that are out there?

I come from a steel town in a railroad-car-making town. And if there is anything that has been hit worse than that, I would like to see where it is. But it is getting people ready for the world we live in today so that they can walk out of that schoolroom and onto the field and play and participate. It is the low participation rate that is killing us.

Now, we changed the metrics of how we were going to pay out Social Security. I get that. Beneficiaries, not every single beneficiary ever put any money in the account. As a guy that handles a pension account for my own people, I could not do what the government has done to the account. If I did it with my pension plan, I would be in jail. So we have played with this thing for far too long. I agree with my colleagues on the other side, and we talk about this when we are off the floor and sometimes on the floor. We have got to fix this thing.

The other thing, we have got to get the American people aware that you have got to get to work. It is about jobs, jobs, jobs, and more jobs. We have got to get this labor force participation rate up. That is where the answer is. We have got to create a dynamic and robust economy where every single American can get up every day and not just walk to their job but run to their job, because they can take care of themselves, their families, and the future.

Mr. Chairman, thank you so much for calling this. Listen, John and I and Earl, we get along so well in this, I just think people at home would be shocked at how well we get along because they seem to listen to people on the Internet rather than people who actually are here. So God bless you for what you are doing. We want to work with you.

Chairman Johnson. Thank you.

Mr. Rice, you are recognized.

Mr. Rice. Thank you, Mr. Chairman. Thank you for holding this hearing today, and I am glad to see you back.

You know, this is a difficult problem. It is not terribly complex. As Mr. Kelly says, we make it more complex than it is, but it is just math. We have got less money coming in than going out in the long run, and that money will run out eventually, and so people's benefits will have to be reduced unless we do something. Everybody in the room knows that, eventually, we will do something. The President says the Social Security trust fund will expire sometime in this timeframe, 2030 to 2033. Every Republican, every Democrat in the House and the Senate, they all say the same thing. They all go home, tell all their people back home: this is happening and needs to be dealt with.

And yet there is a dearth of solutions, specific solutions offered. Why? Because it is difficult. Why? Because if you talk about reducing the outgo, cutting people's benefits, you make that population angry. If you talk about raising the revenue, you make another population angry. And politicians are loath to make people angry. But we have to offer solutions. I believe it is one of the factors that is holding our economy back. I believe it is one of the five major issues that are holding our economy back, that are holding our job creation back, that are holding our American optimism back, and that it is something that is solvable. We just have to -- as AARP used to run commercials just recently -- take a stand. Of course, if you ask them what their plan is, they won't tell you. They won't take a stand.

So what we have to do is we have to show political courage here, and I am very, very hopeful that this committee through these hearings is preparing to do exactly that, to offer a plan to solve this problem, to take this problem off the table, once and for all, and to resolve it so that we can move forward. But if we have CBO and we have the Social Security Trustees differing on the numbers so that we don't know exactly what target we need to hit, that obviously makes the problem a little more difficult -- a lot more difficult.

When we deal with this problem, we want to get to 75-year solvency. That is how both of you-all defined solvency, right, 75 years, right, both of you? So I really hope that you can sit down together and pull a little closer on exactly what that will take, because if we have to, when we come up with our solutions and put those on the table and go through the wrangling that we need, we sure don't want to have to revisit this in just a few years. Once we resolve it, let's get it resolved and put it to bed.

So I am hopeful that you all can come together and compromise on your assumptions like we are going to have to compromise on our solutions and put this thing to bed for the American people so that they don't have to be threatened by the fact, by Republicans and Democrats, by the President and the House and Senate, every time we speak about Social Security and this potential for the trust fund to go bankrupt. Thank you.

Chairman Johnson. Thank you.

Mrs. Black, you are recognized.

Mrs. Black. Thank you, Mr. Chairman.

And it really is good to see you back looking so good and out kicking butt with a new knee. We are really happy to have you back and being the Chairman of this Subcommittee.

Such an important issue for us to discuss, and as my colleague to my left has indicated, you have got to have good information in order to make good decisions on how you fix the problem.

So, Mr. Hall, I want to go to you. In the past, the CBO used some of the Trustees' demographic assumptions in their forecast of Social Security solvency, but recently that has changed. How does CBO decide which numbers to use from those external sources, including the actuary, and which numbers to produce internally?

Mr. Hall. Sure. First of all, to put this in perspective, up through 2012, we simply used the demographic assumptions as the Social Security Trustees. In 2013, we changed that, and that actually was the biggest change I think, in our actuarial balance. And the biggest change we made there was we looked at the rate of increase in mortality, mortality improvements over time, which would, which looked to be going -- the improvements were much quicker, I think, than our previous assumption. So we followed the recommendations of demographers. We followed the recommendations of the Social Security technical panel, and we did our own analysis when we made the decision to increase the improvements in mortality, and it raised the longevity of the population 75 years from now, and that had a pretty big impact on our actuarial balance.

So the way we are operating is we are there to be independent and objective and make decisions that we think are the best. So we continually talk with our panel. Most of our changes, we talk to our panel of economic advisers. They are very prominent people. We look at research. We do our own research, and I say we look at what Social Security folks are doing and what the technical panel is recommending, and we make decisions that we think give us the best forecast at any point in time for the next 75 years.

Mrs. Black. Mr. Goss, do you want to respond to that?

Mr. Goss. Yeah -- actually, I am going to -- perhaps the detail, but actually CBO was using our population projections lock, stock, and barrel through 2010. Then, in 2011 and 2012, CBO made some changes to use somewhat different immigration assumptions. Dr. Hall is exactly right. It was in 2013 that truly dramatic changes were made at CBO on the mortality projections. They stopped using ours. Also disability incidence rate assumptions were changed at CBO. Lots of different things were changed, but the mortality in particular was really, really critical.

Longevity is really, really important. One thing that we have recognized over the years is that there is an age gradient, that mortality rates tend to drop, have dropped historically, a lot faster at younger ages than at older ages. And in 2012, based on the recommendation of one of our technical panels -- and by the way, we get recommendations from people all over the place. Every 4 years, another technical panel, we get lots of recommendations. We and the Trustees look at them all and take them all under advisement. But that panel -- and CBO went with it -- said let's go to roughly 1.2 percent per year reduction, all ages the same. And we are assuming about .8 percent overall with a slower rate of decline at high ages and a faster rate of decline at younger ages.

Now, I am happy to say that Keith and CBO have now gone away from that assumption that they went to in 2013, and as of 2016, they have modified their mortality assumptions in a way now that come back very, very much closer to ours. I think the net effect on mortality should be very similar to ours, from the best we understand it, because we actually put out an actuarial note, No. 158, right around the time of our last Trustees report that analyzed some work by Ron Lee, a really good demographer out, formerly of Berkeley. I think our impression is that what CBO is doing now is very similar to what Ron Lee did. Ron Lee has a little bit faster rate of overall decline in death rates, but a much bigger differentiation between high and low ages. And the impression we have at least is that's where CBO is at this point. The bottom line, though, is the net on mortality is now very similar. So CBO, as of 2016, is not having as big an extra shortfall from mortality as it did in 2013, 2014, and 2015. But at the same time that change was made, also the birth rate was altered at CBO that literally went in the direction of assuming a substantially lower birth rate going on indefinitely into the future, which would result in a big change in our age distribution and, therefore, in the cost as a percent of payroll for this program.

Mrs. Black. Would you like to respond?

Mr. Hall. Sure. Let me just jump to, I was sort of giving you an idea of why we started changing things, because we really started changing things in 2013. Where we are right now, the biggest difference comes from the share of earnings subject to Social Security tax. That accounts for the biggest difference. Second is our nominal GDP, our economic forecast, is pretty significant. That makes a big impact. And then the third thing is the demographics. So, at the moment now, most of the differences are more basic than that. They are sort of economic differences rather than demographic differences.

Mrs. Black. Thank you for that clarification.

I yield back.

Chairman Johnson. Thank you.

Mr. Becerra, do you care to question?

Mr. Becerra. Yes, Mr. Chairman. Thank you very much.

First, gentlemen, thank you for your testimony and your work over the years. I know you have covered a number of things, so let me just zero in on a few.

Mr. Hall, you just talked about the earnings subject to Social Security tax. I suspect the two of you will agree that the earnings subject to Social Security tax has remained consistent for -- how long has it been since we have had the 12 and a quarter, 6 and an eighth, 6 and an eighth? So --

Mr. Goss. -- 6.2 for --

Mr. Becerra. Mr. Goss, clarify. How much is paid in by a worker, and how much is paid in by the employer of the worker?

Mr. Goss. For wage and salary workers, they paid in 6.2 percent of the employee's wage and salaries each. So they split it even. Self-employed workers are responsible for paying the whole thing.

Mr. Becerra. 12.4.

Mr. Goss. 12.4.

Mr. Becerra. Okay. So 12.4 percent, Mr. Hall, you'd agree with that?

Mr. Hall. That is right, although let me just clarify, when I say the share of earnings subject to tax, I am really talking about the effects of the maximum, the tax max, on a payroll.

Mr. Becerra. Let's go there. Let's go there, because there is a maximum amount that you can have withdrawn from your paycheck to cover the 6.2 plus 6.2 percent of the payroll tax. And, Mr. Hall, what is that maximum now?

Mr. Hall. Oh, the tax max?

Mr. Becerra. Yeah, the tax maximum.

Mr. Hall. I don't remember now. $116,000?

Mr. Goss. $118,500.

Mr. Hall. So the real difference for us is we forecast growing income inequality. We think that income inequality is going to continue to grow --

Mr. Becerra. I want to go in a different direction. What I am trying to just do is establish what we do know as fact and the hard things that we can work with because from there, we make our projections. And as it has become clear, you have differences in your projections. And which one comes true, probably none of us will be alive to see. But they are projections, and they are very important because that is how we are going to base our policy and how we act.

But we know that Americans are contributing 6.2 percent of their paycheck and their employers are contributing another 6.2 percent for a total of 12.4 percent. I showed a chart that indicated that, over the course of the 80 or more years that Social Security has been around, we have contributed a total of about $19 trillion -- well, it is $19 trillion that the trust fund has collected and the Social Security system has collected, but that would include also the money that has earned interest on those tax contributions that have been paid in.

Mr. Goss, how much of that money that Social Security has brought in under the program, Social Security program, has come from the interest earned on the tax contributions of American workers?

Mr. Goss. We do have that in our Trustees report. I could look it up. I don't know if we have the time to do that now.

Mr. Becerra. I know it is roughly $2 trillion. I just don't know how close to the $2 trillion --

Mr. Goss. It is a relatively small portion because really the aim historically of Social Security is not to be a fully advanced -- a little actuarial term here -- a fully advanced funded system like a private pension.

Mr. Becerra. Spoken like a true actuary, that $2 trillion is a small portion.

Mr. Goss. Sorry. The $2.8 trillion, in the context of this program, it is only 3 years' worth of our benefits, and the kind of pensions that we might be familiar with out in private industry typically to be fully advanced funded have to have about 25 times annual outgo.

Mr. Becerra. So here is what I think is important that gives us a chance to come up with some policy solutions to track that challenge that is coming up, and that is that, along with those $2 trillion that have been earned in interest from Americans' tax contributions into Social Security over 80 years, that complements -- the number I have here is $17 trillion that Americans have paid into Social Security since its inception in 1935. To me, what is remarkable about that number, $17 trillion plus $2 trillion, $19 trillion, is that we continue to pay it. A lot of Americans could have been skeptical about the program and said: You are taking money out of my paycheck. That is money out of my pocket that I could be using right now to buy that house or maybe save for my retirement myself.

But we continue to do it to the point now where tens of millions of Americans are now benefitting from having believed that the system was going to work. And so far, every American who paid in, as I said, has been able to know that he or she is going to get his or her money in full on time until they die. And that is the beauty of Social Security, where the reason why I think we are going to find Americans saying: You better make sure you fix Social Security the right way because it is about the only thing that we have found reliable over the years, public or private.

And if you think about what has gone on with the financial services institutions, with Wells Fargo and how it defrauded a number of Americans, you need to have confidence in your programs. And that is where I think your testimony, both of you, has been valuable.

Mr. Chairman, I am glad we are doing these hearings because this is going to take us a little closer to having those conversations we need to actually come up with some policy. So, Mr. Chairman, I thank you for holding this hearing.

I thank our two witnesses for their expert testimony.

Chairman Johnson. I do too.

And we all know Social Security is in trouble, and just how much depends on who you talk to. While 75-year estimates aren't ever going to be perfect, having CBO and the Trustees so far apart does raise questions, and rightfully so. Congress relies on these well-respected experts to give us the best information so we can make decisions on the best ways to strengthen Social Security for our children and grandchildren so they can count on it, just like seniors and individuals with disabilities do today.

And I appreciate you two being so straightforward with us. Thank you for being here. Thank you for your testimony.

And thank you to all the Members who are still here. I appreciate that too.

And that concludes our testimony today. And, with that, the Subcommittee stands adjourned.

[Whereupon, at 11:24 a.m., the subcommittee was adjourned.]

Member Question for the Record

Public Submissions for the Record