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HEARING ON COMPREHENSIVE LEGISLATIVE PROPOSALS TO ENHANCE SOCIAL SECURITY

United States House of Representatives
Committee on Ways and Means
Social Security Subcommittee

April 10, 2019

Chairman Larson, Ranking Member Reed, and Members of the Committee:

Thank you for holding this crucially important and historic hearing on comprehensive legislative proposals to expand Social Security. As you know, Social Security is an issue that concerns every American.

Expanding and Not Cutting Social Security Has Strong Bipartisan Support

I commend Chairman Larson and his more than 200 cosponsors for their support of the Social Security 2100 Act which expands benefits, without cuts, while restoring it to long-range actuarial balance. Although the Social Security 2100 Act has no Republican cosponsors, polling reveals that it is fully bipartisan. This is true, as well, with respect to the Social Security Expansion Act, the other comprehensive Social Security expansion bill introduced this Congress.

Poll after poll finds that an overwhelming majority of Republicans support expanding, not cutting, Social Security. Just a few weeks ago, on March 21, the Pew Research Center released a poll showing that 68 percent of those identified as Republican/Lean Republican believe that Congress should make no cuts to Social Security whatsoever. Indeed, the poll may understate that view because the question was poorly worded, asking respondents whether they agreed more closely with the statement, “Social Security benefits should not be reduced in any way,” or the statement, “Some reductions in benefits for future retirees will ***need*** to be made.” (Emphasis added.) The second choice reflects the widespread but mistaken belief that Social Security is unaffordable and, therefore, needs to be cut. The statement is, of course, demonstrably proved inaccurate by the Social Security 2100 Act. Nevertheless, some respondents, believing it to be accurate, may have chosen it despite their preference for no cuts.

[1] I have a forty-five-year background in the area of Social Security. I am president of Social Security Works. I also chair the Strengthen Social Security Coalition, comprised of over 300 national and state organizations representing 50 million Americans, including seniors, workers, women, people with disabilities, veterans, children, young adults, people of low-income, people of color, communities of faith, and others.

From 1983 to 1989, I was on the faculty of Harvard University’s Kennedy School of Government and taught courses on private pensions and Social Security at the Harvard Law School. In 1982, I was Alan Greenspan’s assistant in his position as chairman of the bipartisan commission that developed the 1983 Social Security amendments. From 1977 to 1981, I was a legislative assistant to Senator John C. Danforth (R-Mo.) and advised him regarding Social Security. From 1974 to 1977, I was a tax lawyer with Covington & Burling, where I handled a variety of private pension matters. I have authored or co-authored three books on Social Security as well as numerous articles.

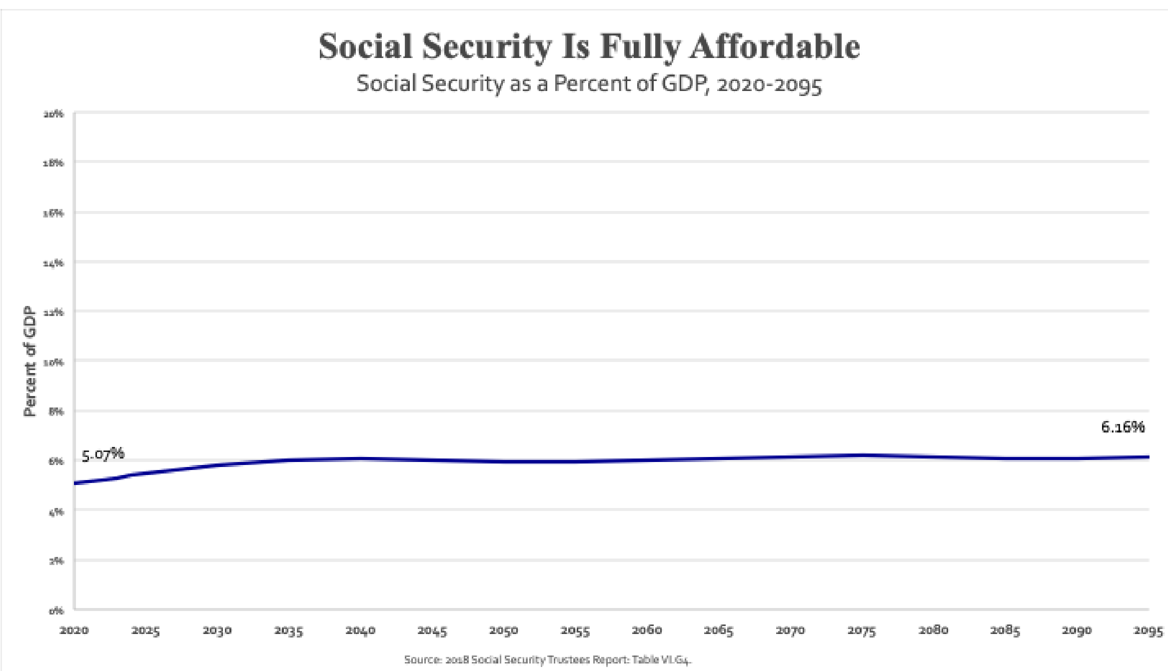
A year ago, in the lead-up to the 2018 midterm elections, Public Policy Polling found that 56 percent of those who voted for Donald Trump and 55 percent of those who identify as Republican would be more likely to vote for a candidate who "supported expanding and increasing Social Security." Furthermore, a survey conducted for the nonpartisan National Academy of Social Insurance in 2014 by Greenwald & Associates found that 80 percent of Republicans believe that Social Security is more important than ever; 72 percent of Republicans responded that they "don't/didn't mind paying Social Security taxes;" and 65 percent of Republicans agreed that "we should consider increasing Social Security benefits."

Perhaps most striking, the same National Academy poll found that 69 percent of Republicans supported "increasing the Social Security taxes paid by working Americans," if needed to "preserve Social Security benefits for future generations." That percentage increased to 71 percent when the question was whether "top earners" should pay more.

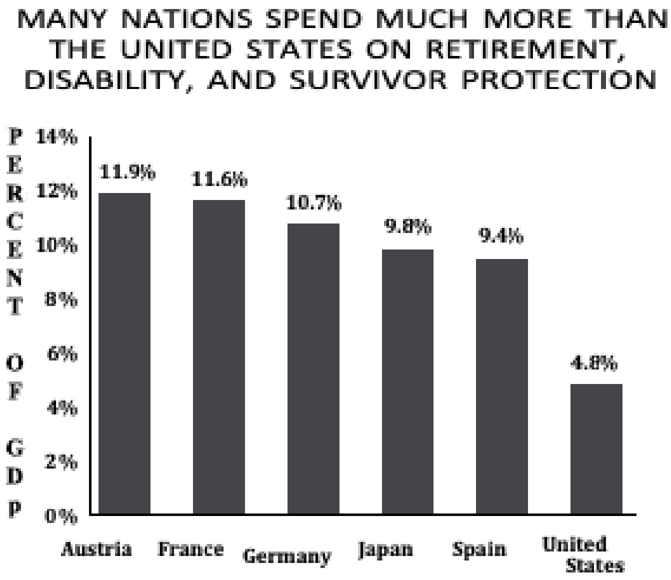
I also applaud Chairman Larson for his commitment to transparency. In my view, the reason that Congress has not already enacted legislation eliminating the projected shortfall is that it has attempted to cut benefits, which the American people strongly oppose. Worse, after President George W. Bush's effort failed, Congress has sought to enact cuts using undemocratic fast-tracked commissions and committees, in meetings conducted behind closed doors -- efforts seemingly designed to avoid political accountability. When Congress considers proposals that the American people support, such as the Social Security 2100 Act and other proposals to expand rather than cut Social Security, deliberations can and should occur in the sunshine.

Whether to Increase or Cut Social Security's Modest Benefits is a Question of Values, Not Affordability

Expanding, not cutting, Social Security and restoring it to long-range actuarial balance is a question of values and beliefs. It is unquestionably affordable. As the following chart makes clear, Social Security's cost as a percentage of GDP is close to a straight horizontal line for the next three-quarters of a century and beyond.



At the end of the 21st century, Social Security is calculated to cost 6.16 percent of GDP. That is a lower percentage of GDP than many other industrialized countries spend on their counterpart programs today.



Moreover, our nation is projected to be much wealthier at the end of the 21st century, just as we are wealthier now than we were seventy-five years ago, before computers, smartphones, and other technological advances. That means that the 6 percent of GDP will be easier to afford in the future, just as an individual earning $100,000 can more easily afford a 6 percent expenditure (despite it being a larger dollar amount) than an individual earning $10,000. In one case, $94,000 remains; in the other, just $9,400.

Nor should the increase of just over one percent of GDP be difficult to absorb. To put that projected increase in perspective, military spending after the 9/11 terrorist attack increased by over one percent of GDP, as a result of the Iraq and Afghanistan wars—and that increase was the result of a surprise attack, with no advance warning. Similarly, spending on public education nationwide increased by 2.8 percentage points of GDP between 1950 and 1975, when the baby boom generation showed up as schoolchildren, without much advance warning.

Expanding, Not Cutting, Social Security Will Strengthen the Economy

Because the vast majority of Social Security's 63 million beneficiaries and their families are low or moderate income, they tend to spend their benefits immediately in the local community in which they live. A 2013 report sponsored by the AARP found, "Every dollar of Social Security benefits generates about $2 of economic output." In just 2012 alone, according to the study, Social Security benefits were responsible for generating over 9.2 million jobs and more than $370 billion in salaries, wages, and other compensation. Those benefits created around $1.4 trillion in economic output. Social Security's contribution to the economy accounted for over $222 billion in tax revenues to states, localities and the federal government.

Social Security is especially important to rural communities, which tend to be older. A 2011 study by the Center for Rural Strategies found that Social Security provided 9.3 percent of total income in rural counties in 2009. Some rural counties have substantially higher percentages. In Alcona, Michigan, for example, 20.1 percent of total personal income in 2010 came from Social Security. Similarly, 20 percent of total personal income in the rural county of Hickory, Missouri came from Social Security. Likely, these percentages are higher today. By comparison, the percent of total personal income from Social Security in those two counties in 1970 was 10.9 percent and 11.5 percent, respectively – about half what it was in 2010.

Those favorable economic impacts on local communities are likely larger today. They would be larger still if benefits are expanded. For the information of members of the committee, below are the Congressional districts of each member together with the number of Social Security beneficiaries in the district and the total monthly benefit amounts in December 2017.

Member	District	Number of Beneficiaries	Total Monthly Benefits
Rep. John Larson	CT-01	141,400	$197 million
Rep. Bill Pascrell	NJ-09	122,075	$162 million

Rep. Linda Sanchez	CA-38	110,643	$136 million
Rep. Daniel Kildee	MI-05	176,105	$235 million
Rep. Brendan Boyle	PA-02	127,697	$159 million
Rep. Bradley Schneider	IL-10	111,280	$162 million
Rep. Brian Higgins	NY-26	157,212	$204 million
Rep. Tom Reed	NY-23	165,918	$211 million
Rep. Jodey Arrington	TX-19	122,938	$148 million
Rep. Drew Ferguson	GA-03	145,224	$187 million
Rep. Ron Estes	KS-04	139,209	$187 million

Expanding Social Security is a Profoundly Wise Solution to the Looming Retirement Income Crisis

Numerous polls and surveys over recent years reveal that not having enough money in retirement leads the list of Americans' top financial concerns. A Gallup poll conducted last May, for example, reported that nearly six out of ten Americans – 58 percent – were very or moderately concerned about "Not having enough money in retirement." Tying with "Not being able to pay medical costs in the event of a serious illness or accident," concern about retirement topped six other financial challenges, including "Not having enough money to pay for your children's college" and "Not being able to pay your rent, mortgage or other housing costs."

Expert analyses make clear that Americans' concerns about retirement are well founded. The Center for Retirement Research at Boston College ("CRR") calculates a National Retirement Risk Index. Its most recent analysis (January 2018) found that one out of two working-age households will be unable to maintain their standards of living in retirement even if they work until age 65, take out a reverse mortgage on their homes and annuitize all of their other assets. Moreover, CRR found that the number of "at risk" working-age households increases to over 60 percent when health care costs are taken into account.

The reasons for our retirement income crisis are clear. Traditional employer-sponsored defined benefits are disappearing. In 1980, around 38 percent of workers participated in defined benefit plans; in 2017, only 15 percent did. Many employers have replaced traditional defined benefit plans with 401(k) plans, but those have proven inadequate for all but the very wealthiest.

The clear solution to the coming retirement income crisis is simply to expand Social Security. Social Security has stood the test of time. It is extremely popular; increasing it can be done immediately, with no start-up costs. Moreover, Social Security is strikingly superior to all of its private sector counterparts. Indeed, it has all the advantages and none of the disadvantages of private sector defined benefit plans and defined contribution plans. That is true as well, for the life insurance, retirement annuities, and disability insurance sold by insurance companies. Moreover, it has advantages not available from these private sector counterparts.

- **Social Security's Striking Superiority to its Private Sector Counterparts**

Insurance, not savings, is the best financial protection against risks that are predictable for large groups, but unpredictable for individuals – like living to age 110, becoming disabled, or dying prematurely, leaving dependent children. Social Security, which is insurance against the loss of wages in the event of retirement, disability or death, protects against all those risks.

Social Security is much more efficient than its private-sector counterparts. Less than a penny of every dollar is spent on administration. More than 99 cents is spent on benefits. Its private sector counterparts spend substantially higher percentages on administration.

Also, Social Security imposes fewer administrative costs on employers. Records are kept seamlessly by the Social Security Administration through the use of Social Security numbers. Employers are free from the record-keeping, reporting, and fiduciary requirements of their own sponsored plans.

Social Security is completely and automatically portable from job to job. Wages from all covered employment are recorded by the Social Security Administration and used in the calculation of benefits. Consequently, it is as good for mobile workers as it is for workers who remain with one employer.

Social Security's guaranteed benefits are much more secure than retirement savings, which can be lost as the result of a market downturn or simply poor or unlucky investment decisions. They are also much more secure than employer-sponsored traditional pensions (without need of the Pension Benefit Guaranty Corporation) and the life insurance, disability insurance, and retirement annuities sold by private insurance companies. Social Security has never missed a payment in its 84-year history.

Social Security is fairer in its distribution and more universal than its private sector alternatives. Furthermore, it includes features that these alternatives lack. For example, private sector annuities and defined benefit pensions reduce the annuity amount of the primary insured, if a spouse is added. In contrast, Social Security's annuities automatically include add-on benefits for the joint and survivor portion of the annuity without reducing by a penny the life annuity portion paid to married workers.

If workers are divorced after having been married ten years, there are add-on spousal and widow(er) benefits for their ex-spouses. Importantly, those divorced spousal and widow(er) benefits are the ex-spouse's as a matter of right. The parties to the divorce are spared the burden of having to negotiate or go to court to secure their benefits.

Social Security also provides benefits to children, when adults supporting them lose wages as the result of death, disability, or old age. Like spousal and widow(er) benefits, these add-on benefits do not reduce the primary insured's benefits by even a penny. As a result of these provisions, Social Security is the nation's largest children's program.

Importantly, all benefits are annually increased to offset the effects of inflation. Social Security provides inflation protection without limit, regardless of the rate of that inflation. Consequently, unlike traditional private pension benefits which erode over time, Social Security maintains its purchasing power. (It should be noted that the measure of inflation is in need of updating to make it more accurately reflect the costs of beneficiaries, but, even so, the availability of uncapped inflation protection is one of Social Security's most valuable attributes.)

Of course, Social Security provides for more than retirement. Its benefits are payable in the event of disability, if that occurs prior to retirement, and in the event of death, if there are eligible survivors.

The reason that Social Security works so well is because the plan sponsor is the federal government. It's what makes Social Security so efficient and so secure. Insurance is most efficient when the risks can be spread across as broad a population as possible and when no one can purchase the insurance when personal risk factors increase – a practice known as adverse selection. The only entity that has the power and ability to establish a nationwide risk pool that covers all workers at the moment they start work and, in that way, avoids adverse selection is the federal government.

Moreover, when the federal government administers the insurance, overhead is minimized. Because the federal government is not competing for market share, there are no advertising costs, broker fees, or other marketing costs. Instead of high-paid CEOs, hardworking civil servants are in charge, and there is no money taken out for profits.

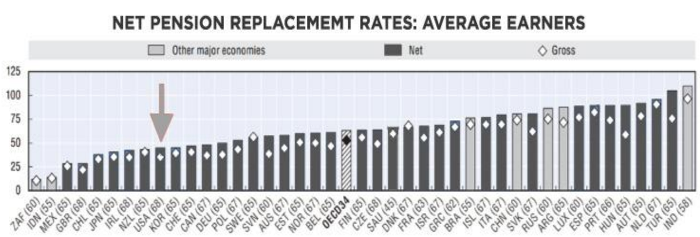
The fact that the plan sponsor is the federal government is what makes Social Security's benefits so secure, as well. Unlike private sector retirement plans and insurance products, the federal government is permanent, and so will not go out of business. It has the power to tax and issue bonds backed by the full faith and credit of the nation. Furthermore, all risks are spread nationwide, not concentrated on single employers, insurance companies, or worse, individual workers.

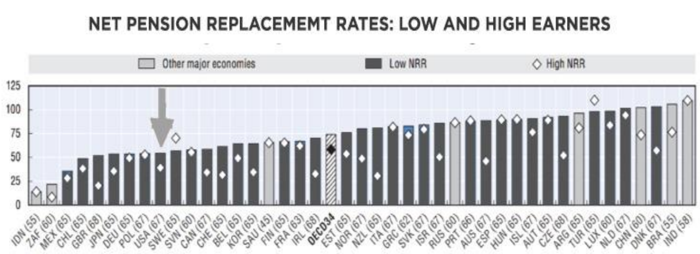
- **Social Security's One Shortcoming is that its Benefits are Too Low**

As vital and well-designed as they are, Social Security's benefits are extremely modest by virtually any measure. In absolute terms, the average monthly Social Security benefit [in March 2019] was $1,347, or $16,164, on an annualized basis. That is below [the 2019 official federal poverty level] for a two-person household, and substantially below the amount needed to satisfy [the Elder Economic Security Standard Index], a sophisticated measure of the income necessary to meet bare necessities.

Social Security's benefits are also extremely low compared to the retirement benefits of other industrialized nations, as the following chart reveals. (The bars designating U.S. benefits are highlighted with arrows.)

Social Security Replacement Rates in OECD Countries by Earnings Level





As informative as are Social Security's absolute benefit levels and its levels compared to other nations' benefits, the most important measure of the inadequacy of Social Security's benefits (vital, though they are) is what proportion of pay they replace. Experts estimate that workers and their families need about 70 to 80 percent of pre-retirement pay to maintain their standards of living. Those with lower incomes need higher percentages; those who are more affluent, with more discretionary income and other assets, need somewhat less.

While Social Security appropriately replaces a larger proportion of the preretirement pay of workers who have lower wages, it [does not come close] to providing sufficient income to meet the goal of maintaining standards of living in retirement. Workers earning around $50,000, who retired at age 62 in 2018, received only 32 percent of their pay or about $16,000 a year. Lower-income workers, earning around $22,500, received 43.2 percent of their pay, but that is only about $9,700 a year. Workers earning around $80,000, who retired at age 62 in 2018, received only 26.6 percent of their pay or about $21,000 a year.

How Social Security Should Be Expanded

For all the reasons discussed so far, Social Security should be expanded, not cut. There are a number of ways this should be done. As discussed above, there is no question that the nation can afford a greatly expanded Social Security. After the discussion of benefit expansions, I will propose the fairest way to spread the cost of restoring Social Security to long-range actuarial balance and paying for the expansions.

- **Across-the-Board Benefit Increases**

Across-the-board increases are vitally important. Recognizing this, the Social Security 2100 Act increases the benefits of all current and future beneficiaries. Some argue that, if benefits are increased, they should be only for those at or near poverty. But this reveals a fundamental misunderstanding of what Social Security is.

Social Security is insurance, not welfare. It is unsurprising that some confuse Social Security and welfare because it is among the nation's most effective anti-poverty programs, but that is a byproduct. Welfare programs are designed to alleviate poverty. Social Security and other insurance programs are designed to prevent beneficiaries from falling into poverty in the first place.

Social Security is part of workers' compensation. It is a benefit that workers earn. Its goal is to insure wages so that if and when they are lost, workers and their families can maintain their standards of living. It is designed to replace wages, not simply provide everyone with a subsistence-level benefit. The nation already has means-tested welfare for seniors: The Supplemental Security Income ("SSI") program, financed from general revenue. SSI has eroded and should be updated.

It is noteworthy that Social Security has a single benefit formula generating retirement, survivor, and disability benefits. Consequently, across-the-board Social Security expansions increase the benefits not just of those receiving retirement benefits, but those receiving disability and survivor benefits, as well.

These include Gold Star families, who have lost loved ones fighting for our country. It also includes 2,377 children who lost parents in the terrorist attacks of 9/11 and 853 surviving spouses, as well as 642 people severely disabled as a result of those attacks and 99 of their children and spouses. In just the first five years following the attack, Social Security paid $175 million to families harmed on that day.

My own view is that, in light of the nation's looming retirement income crisis and Social Security's striking superiority to its private sector counterparts, the across-the-board increase should be significantly larger than any so far proposed in legislation. Instead of providing additional tax breaks for retirement saving or mandating automatic enrollment in 401(k) plans, the better policy is to make Social Security fully adequate, without need for supplementation. Benefits should be doubled or more for average workers so that beneficiaries can maintain their standards of living, without supplementation, in the event of death, old age, or disability.

In addition to the across-the-board benefit increase, the Social Security 2100 Act, the Social Security Expansion Act, and several other bills provide that the more accurate CPI-E be used to adjust benefits to offset inflation. This is an important reform. It should be noted that it is not a benefit increase. It simply ensures that benefits will not erode.

- **Targeted Benefit Increases**

In addition to a better Consumer Price Index and an across-the-board benefit increase, Congress should enact some targeted benefit increases, as well. The Social Security 2100 Act and the Social Security Expansion Act both include an important one: updating the so-called special minimum benefit. The proposal reflects a key value underlying Social Security: that workers should not retire into poverty after a lifetime of work. Moreover, the architects of Social Security believed that workers who contributed to Social Security should receive benefits larger than they could receive simply by applying for means-tested welfare.

The Protecting Our Widows and Widowers in Retirement (POWR) Act, sponsored by Representative Linda Sanchez (D-CA), is another important targeted increase that should be enacted. Those benefited suffer from disproportionately high poverty rates.

Another targeted expansion that should be enacted is credit for caregiving. When workers take time out from the workforce to care for family members, they not only lose wages, but also fail to earn credit toward their future Social Security benefits. In order to increase the economic security of those who engage in the invaluable work of caring for children, aging parents, and other relatives in need of care, those caregivers should receive credit toward their Social Security benefits.

A benefit that Social Security used to provide, the so-called student benefit, should be restored. Most parents, if they are financially able to do so, contribute to the costs of their children's post-secondary education. All of us, through Social Security, should provide that support when workers have lost wages as the result of death or disability.

Another important targeted expansion is the repeal of WEP-GPO. Enacted decades ago for what seemed sound policy reasons, it falls heavily on the nation's firefighters, police, and other public servants who serve us. They, unsurprisingly, feel unfairly singled out. It should be eliminated.

- **Additional Protections**

When President Franklin D. Roosevelt signed Social Security into law on August 14, 1935, he described it as "a cornerstone in a structure which is being built but is by no means complete." His administration considered including short- and long-term disability, universal health insurance, sick pay and more. He decided to proceed cautiously, seeing the proposal as "too precious to be jeopardized now by extravagant action."

It is well beyond time to add several important protections. These include paid family leave and sick pay. These are moments, like death, disability, and old age, when wages are lost and family expenses may increase. America's working families deserve this additional economic protection.

How Currently Promised and Expanded Benefits Should Be Financed

Social Security has three forms of revenue. From the beginning, the predominant source of Social Security's revenue has always been premiums (also known as insurance contributions, under the Federal Insurance Contributions Act), paid by workers and matched dollar-for-dollar by their employers. The Social Security 2100 Act and the other comprehensive legislative proposal introduced this Congress increase these premiums.

Since the beginning, all excess revenue has been held in reserve, in trust, where it is invested until it is needed to pay claims and associated costs. At the end of 2017, Social Security had an accumulated reserve of $2.9

trillion and investment income for the year of $85.1 billion. Those investment earnings on the accumulated reserve form the second source of income.

From the start, Congress has required that Social Security's Board of Trustees invest Social Security's trust funds in interest-bearing Treasury obligations or in entities whose principal and interest are guaranteed by the United States. If the Trustees were permitted to diversify the portfolio and invest in equities, it would earn a greater return. Indeed, almost all public and private pension funds invest in both stocks and bonds. Public funds in the United States that invest in the stock market include the Federal Railroad Retirement Plan, the Federal Reserve Board pension plan, and the plan covering the Tennessee Valley Authority employees. Moreover, Canada's Social Security program, modeled after ours, now invests some of its reserve in equities, as well.

Although often confused with proposals to privatize Social Security, it is important to recognize that it is not. Having Social Security diversify its portfolio is starkly different from individuals who invest retirement funds in the stock market. In contrast to converting Social Security into private accounts, Social Security could earn the higher rates of return from equities on a collective basis. This would in no way affect the system's basic structure of specified, guaranteed benefits.

A well-managed, diversified Social Security portfolio would never be in a position of having to reduce net assets at any particular time and so could ride the market's ups and downs. Investment risks would be spread over the entire population and be independent of the time a worker filed for benefits. Retirement income would continue to be based on earnings records, not the vagaries of the stock market.

In stark contrast, when individuals invest, they take a substantial risk. They bear the entire risk of poor investment performance. In addition, they have the risk of being forced to sell when the market is down. They ordinarily will have to cash in their investments at or near the time of retirement. If they are to protect themselves from running out of money before they die, they will need to purchase annuities, which makes the saver unable to recoup investment losses. In other words, individual investors have limited time horizons. Their retirements may not time well with the ups and downs of the stock market.

The first iteration of the Social Security 2100 Act, introduced in 2014, provided for investment of up to 25 percent of Social Security's reserve in equities. Any such proposal can and should be structured to insulate private companies from interference. Indeed, it was proposed by the late Robert M. Ball, the longest-serving commissioner in the history of the program and the world's foremost expert at the time of his death on the nation's Social Security system. The proposal, while politically difficult because often wrongly confused with privatizing Social Security, is sound policy.

Social Security insurance contributions or premiums, the predominant source of revenue, are proportionate up to the maximum wage base of $132,900 in 2019, and regressive beyond that. The investment earnings, the second source, are neither progressive, regressive or proportionate, but simply defray the collective costs. The third source, added by the Social Security Amendments of 1983, is the only progressive source of Social Security's revenue.

Those amendments provided that a portion of benefits be counted as income for purposes of calculating a beneficiary's federal income tax liability. Normally, that extra tax revenue would go into the general fund of the federal government, to be used for a range of goods and services provided by the government. Instead, this particular revenue is not paid to the general fund but rather is dedicated to Social Security just as the two other sources of revenue are.

This one progressive source of revenue accounted for just 3.8 percent of Social Security's total revenue in all of 2017. The percentage should be increased.

The last few decades have seen a dramatic increase in the share of all income going to the top 1 percent of America's households, rivaling the period of extraordinary inequality existing just before the Great Depression of the 1930s. Moreover, the income inequality of recent decades is a major factor behind Social Security's projected funding shortfall.

The Social Security earnings cap is indexed to average wages. Since the earnings of high-income workers have increased much more rapidly than the average in the last several decades, an increasing amount of their earned income falls above Social Security's maximum earnings contribution cap. In 2016 alone, those at the top paid $80 billion less to Social Security, only because the cap has slipped from covering 90 percent of wages, as Congress intended, to 82 percent today. Those are billions of dollars that should have gone to Social Security but instead stayed in the pockets of the wealthiest among us. Unquestionably, the richest are not paying their fair share into Social Security.

Adding to the cost to Social Security of today's income inequality, the vast majority of workers contribute to Social Security with every paycheck, but when their wages are stagnant, so are their Social Security contributions. The percentage of wages paid as current cash compensation has also declined sharply as health insurance has accounted for a bigger and bigger portion of employee compensation.

Expanded Social Security benefits for average Americans, financed through a progressive revenue source, would help slow the nation's income and wealth inequality. Any number of sources are available.

The late Robert M. Ball proposed dedicating the federal estate tax to Social Security. Among the myriad other possibilities are a wealth tax and a surtax on adjusted gross income over $1 million. If progressive revenue is employed, Social Security can be significantly expanded and restored to long-range actuarial balance while strengthening the economy and not unduly burdening anyone.

Conclusion

Chairman Larson and his cosponsors are to be applauded for their bold, wise steps with respect to Social Security. Many of my colleagues and I would prefer larger expansions and progressive financing. Yet we recognize the Social Security 2100 Act to be sound, thoughtful legislation, consistent with the structure and fundamental principles underlying the Social Security program.

In his effort at bipartisanship and responsiveness to all points of view, Chairman Larson has included features that should be attractive to conservatives. These include a tax cut and a financing provision that requires minimum wage workers as well as those higher up the pay scale to contribute more to Social Security.

My colleagues in the Social Security community and I look forward to participating as this important legislation is considered through regular order and voted on by this committee and the entire House of Representatives.