

**Testimony of
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National Commission on Fiscal Responsibility and Reform
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I am Janice Gregory, the current President of the National Academy of Social Insurance (NASI). NASI is a non-partisan, non-profit organization composed of over 800 scholars from public and private venues who are recognized experts on our nation's social insurance programs, primarily Social Security, Medicare, Workers' Compensation, and Unemployment Compensation, as well as related social policy programs such as Supplemental Security Income and Medicaid.

The Commission faces a difficult task of importance to our nation – that of outlining a path that will ensure the strength of our national fiscal house in both the medium and long term. We commend Commission Members for their dedication and commitment to the task before them.

Although my remarks today will focus on the Social Security program, NASI would be pleased to provide the Commission additional information regarding any of the other national programs that I mentioned.

In these remarks I will briefly address five topics:

- The role of social insurance
- Social Security and the medium-term federal General Fund deficit and debt
- Social Security and the long-term federal General Fund deficit and debt
- Making Social Security whole over the long term
- Public support for Social Security

THE ROLE OF SOCIAL INSURANCE

Governments establish social insurance programs, with their hallmarks of universality (or near-universality) and compulsory participation, when insuring against certain risks serves a societal purpose.

As agrarian economies shifted to economies characterized by industrialization, specialization, mobility of workers, and urbanization, wage earners found that any misfortune that interrupted their current income could mean destitution and poverty for themselves and their families. The old forms of security provided through the interdependence of family members and of interconnected families in small communities no longer sufficed – or even existed – for these individuals. Beginning in the late 19th century, social insurance programs began to be established under all forms of government around the world to address the issues of serious economic insecurity that arise wherever more and more individuals work for wages.

Instead of merely providing relief after disaster has struck, programs such as Social Security introduced the idea of preventing economic insecurity by having employees and employers participate in government programs in advance of economic need. In this way, such programs accomplished several societal objectives:

- Providing pride as well as peace of mind to workers concerned about caring for their families as well as their own future, thereby increasing the stability of the government against undue unrest;
- Avoiding disincentives to personal savings by not means-testing benefits;
- Preventing the thrifty from having to pay for the improvident by compelling all workers to insure themselves against the loss of income;
- Undergirding the worker's ability to risk new or different employment opportunities that add to economic growth;
- Improving economic stability by protecting mass purchasing power;
- Working in a counter-cyclical manner to lessen the harmful impact of swings in the economy.

The Social Security Act signed into law 75 years ago cites the Constitutional directive that the government “provide for the general welfare” in its opening lines. The law was seen not merely as a humanitarian gesture but as a necessary underpinning in the modern world for individual liberty, for free enterprise and for democracy.

When he signed the bill, President Roosevelt described it as “a law that will take care of human needs and at the same time provide the United States an economic structure of vastly greater soundness.” Earlier he had asserted, “This seeking for a greater measure of welfare and happiness does not indicate a change in values. Rather it is a return to values lost in the course of our economic development and expansion.” [Message to Congress, June 1934]

SOCIAL SECURITY AND THE MEDIUM-TERM FEDERAL GENERAL FUND DEFICIT AND DEBT

The Social Security program is not a cause of the federal government's current deficit and debt concerns. In fact, the program has been running surpluses since 1984.

While the federal General Fund has shifted from an annual surplus of \$86 billion in 2000 to a deficit of \$1.55 trillion in 2009 (CBO 2010a), the Social Security program has amassed a trust fund reserve now amounting to \$2.5 trillion (Board of Trustees, 2009; CBO 2010a). The trust fund includes government debt borrowed from American workers that the government otherwise would have had to borrow from national and international credit markets.

Moreover, Social Security trust fund reserves are expected to increase to \$3.2 trillion by 2015 and to \$3.8 trillion by 2020 (CBO 2010b).

It is important to recognize from the start that the Social Security reserve has been built primarily through dedicated FICA taxes paid by lower and middle-income workers and their employers – i.e., a total of 12.4% on wages up to a maximum of only \$106,800 in 2010 – and through interest paid on the bonds held in the reserve fund.

The reserves are invested by law in special Treasury securities that are real obligations of the federal government derived from the invested FICA taxes. Indeed, program reserves were essential to the payment of full benefits prior to enactment of program reforms in 1983.

Thus, there is no short or medium-term fiscal challenge for Social Security. The challenge for the Commission in meeting its 2015 deficit reduction goal is put the federal General Fund in better balance.

SOCIAL SECURITY AND THE FEDERAL LONG-TERM GENERAL FUND DEFICIT AND DEBT

The Commission also is charged to make recommendations that “meaningfully improve the long-run fiscal outlook.” A few key statistics illustrate the fact that Social Security has only a modest impact on the long-term concerns of this Commission:

- The cost of the Social Security program will rise from 4.9% of GDP today to 6.2% of GDP in 2034, and then decline to about 5.8% of GDP by 2050 and remain at that level (Board of Trustees 2009).
- By contrast, Medicare and Medicaid – themselves driven by the spiraling cost of health care – will rise from 5.7% of GDP in 2008 to about 22% by 2080 (CBO 2009).
- A small reduction in the national health care cost curve would offset the projected increase in Social Security program costs. For example, slowing the rate of health care cost growth by just 15 basis points per year – 0.15 percentage points per year – would produce budgetary savings equivalent to closing the entire 75-year Social Security shortfall (Orszag 2010).
- According to the Center on Budget and Policy Priorities, the cost of the 2001 and 2003 tax cuts, if made permanent, is 1.95% of GDP over the next 75 years, or triple the size of the projected long term Social Security shortfall of 0.65 percent of GDP. (Center on Budget 2005). Furthermore, preserving the 2001 and 2003 tax cuts just for the top 1% of taxpayers nearly matches the entire 75-year Social Security shortfall. (Center on Budget 2008).

MAKING SOCIAL SECURITY WHOLE OVER THE LONG TERM

The Social Security program faces a modest shortfall (equal to 0.65 percent of GDP) over the long term, defined for this purpose as 75 years.

While it is impossible to predict the composition or state of our economy 75 years from now, the importance of this program to American workers and families fuels the need to plan for the long term in order to provide stability in its finances. Thus, the Social Security trustees annually examine birth and death rates, wage and price growth, employment expectations, interest rates, and other trends that affect Social Security finances, and, when a projected imbalance emerges, policy makers consider changes to the program's revenue and benefits to redress the imbalance.

Similarly, adequacy analysis often points to areas where program benefits need to be adjusted to address new challenges presented by a changing economy. For example, overall benefits, or benefits for long-term and low-wage workers, may be deemed too low; benefits may be seen as increasingly inadequate for those who live to be very old; or the need to improve education in our nation may lead many to consider restoring the Social Security benefit for students who have lost a parent.

In this regard, I commend to the Commission's members and staff, NASI's October 2009 publication *Fixing Social Security: Adequate Benefits, Adequate Financing*.

Should the Commission decide to address long-term program changes in Social Security, I also highlight the following information as considerations in your discussions:

- The last Social Security payroll tax increase occurred two decades ago, in 1990.
- Historically, Congress has set the level of wages subject to Social Security payroll taxes so that it covered 90% of the aggregate wages of all workers. Today, it covers only about 83% of such earnings.
- Under current law, benefits already will be substantially reduced for future retirees because of the increase in the age for full retirement benefits from 66 to 67 by 2022.
- In addition, pending a substantial reduction in the increase in health care costs, all present and future retirees will face increased allocations of their retirement dollars to Medicare premiums or other health care costs. As a result, CPI increases in Social Security benefits will not keep up with their actual expenses.
- Today's workers are facing more and more present and future risk with less and less certainty because of multiple factors – including shifting job markets, inadequate job re-training programs, unemployment benefits based on short-term unemployment in a time when long-term unemployment is becoming more common, long-term stagnant wage

growth for the majority of workers, the loss of wealth for many individuals nearing retirement age because of the collapse of the housing and finance markets, the shift away from private sector defined benefit plans (for the half of the workforce with access to any form of private sector retirement plan).

- Of those age 65 or older in 2008, Social Security provided 83% of the income of the lowest quintile, 82% of the second, 64% of the third, 44% of the fourth, and 18% of the top quintile, which is those with incomes over \$55,890. Average benefits are only about \$14,000 a year, but, for most of the elderly, Social Security remains their most important source of income.

PUBLIC SUPPORT FOR SOCIAL SECURITY

Despite virtually non-stop concerns expressed for years in the press and elsewhere about the future viability of Social Security, the program enjoys solid support among American workers and their families – perhaps because each person has seen the positive impact of the program on their own families or on those that they know.

A poll conducted in July 2009 by the Beneson Strategy Group for NASI and the Rockefeller Foundation revealed that 88% of Americans say Social Security is more important than ever as a result of the recent economic crisis. Fully three-quarters say it is critical to preserve the program even if it means that working Americans have to pay higher taxes to do so (NASI 2009).

In addition, Social Security provides protections beyond the reach of most workers and does so more economically than an individual working on his or her own is able to purchase in private markets. For example:

- A 30-year old worker with a family enjoys approximately \$400,000 in life insurance and \$400,000 in disability insurance protection. Since approximately one-third of benefit payments go to disabled workers and survivors of deceased workers, this is a critical benefit.
- Social Security provides an annuity that is based on the overall wage growth in the economy and that is protected by an inflation rider and a 100% survivor protection clause. This benefit would be very expensive for an individual to purchase in the open annuity market, even if one had enough savings to do so.

An individual relying solely on personal savings to provide for retirement has to save far more than would otherwise be necessary in order to self-insure against investment risk, longevity risk, and inflation risk. Moreover, if the individual reaches retirement age at a time of very high inflation or, like today, of sustained investment stagnation, he or she is likely to come up short as the sequence of investment returns is more important to the individual than average returns over the long term.

Finally, even though the US program is modest, without Social Security, about one half of our elderly would fall below the poverty threshold. It has proved to be one of the most successful and durable public programs in our nation's history. As such we join with others who are concerned that the program remain strong for future generations. We would be pleased to assist the Commission in its deliberations and to respond to any questions you may have.

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