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SCHAKOWSKY TESTIFIES BEFORE WAYS AND MEANS SUBCOMMITTEE AGAINST SOCIAL SECURITY PRIVATIZATION

WASHINGTON, D.C. -- Mr. Chairman, I want to thank you for the opportunity to testify before you today on the issue of Social Security benefit "guarantee certificates" and the future of Social Security.

I believe that our goal should be to protect and improve the financial security of retirees, survivors, dependents, and disabled workers. For 67 years, Social Security has been the bedrock of that security. Nearly 46 million people - living in 1 out of every 4 households across this country - today receive monthly benefits from Social Security. Social Security provides critical insurance protections against the future loss of income due to retirement, death or disability for 96 percent of all workers, their spouses and their children. Social Security provides over half of the total income for the average elderly household. For one-third of women over age 65, Social Security represents 90 percent of their total income. Without this program, half of older women would be living in poverty.

Mr. Chairman, it is our responsibility to ensure that the Social Security guarantee is here today, tomorrow and for generations to come.

It is our job as elected officials to enact the policies needed to maintain that guarantee and to reject the policies that undermine Social Security. It is not our job to spend taxpayer dollars to send out paper certificates designed to provide a false sense of security to American seniors and their families. We should not be engaged in a public relations campaign but in a serious policy discussion that lets us debate how best to continue the Social Security commitment to guaranteed, life-long and inflation-proof benefits.

From 1985 to 1990, I served as executive director for the Illinois Council of Senior Citizens. Given that experience, I can assure you that senior citizens will clearly understand these certificates for what they really are - an attempt to provide political cover for those who want to be seen as fans of Social Security while at the same time they are promoting privatization proposals that undermine it. They will wonder why we feel the need to spend \$10 million to say that we will follow the law, unless we decide to change the law. And they will ask why we have \$10 million to send out meaningless certificates instead of using that money to increase services such as meals on wheels, senior housing, or nursing home quality enforcement.

They will also understand why the Republican leadership may feel the need to provide their "bona fides" when it comes to Social Security.

First, there is the budget record. Despite all the rhetoric about putting Social Security revenues in a lockbox, the lock to that box has been picked by the Republican budgets. It is true that the lockbox resolution passed in the House provided certain exceptions, such as war or recession. But it is not true that one of those exceptions was providing tax breaks to the wealthy. The Congressional Budget Office has indicated that the single largest factor in the disappearing budget surplus is last year's tax cut. As you know, the Congressional Budget Office has estimated that, even without new taxes or spending, we will take \$900 billion from the Trust Fund over the next nine years. Now, President Bush is proposing new tax cuts of \$675 billion over 10 years and \$343 billion to make last year's tax cuts permanent, money that will come out of Social Security and Medicare. The Bush budget proposes to take \$553 billion of the Medicare surplus and \$1.5 trillion of the Social Security surplus over the next decade. I doubt that a certificate will assure senior citizens that Social Security solvency is a priority given those figures.

Second, there are those unfortunate statements by Treasury Secretary O'Neill. Last May, in an interview with the Financial Times, Secretary O'Neill stated that "Able-bodied adults should save enough on a regular basis so that they can provide for their own retirement and, for that matter, health and medical needs." In July, Secretary O'Neill stated that "the Social Security trust fund does not consist of real economic assets." Again, it is hard to argue that those are ringing endorsements of Social Security. If the Treasury Secretary believes that the assets in the Trust Fund are just worthless paper, why should Social Security beneficiaries have any faith in a certificate?

Third, despite the outcry over Secretary O'Neill's comments last year, those pesky statements are restated in this year's Economic Report of the President. Once again, we are told that "Americans must take even greater responsibility for their own retirement security by increasing their personal saving." Social Security is not lauded as the most successful anti-poverty program in our history and one that spends less than 1 percent in administrative costs to do so. It is described as a "moral hazard: once a person is insured against running out of money in retirement, he or she has an incentive to retire earlier than in the absence of insurance," thereby raising the cost of the program. Or this statement: "The importance of Social Security benefits in the retirement portfolios of most American households does not necessarily mean, however, that most U.S. households would be poorly prepared for retirement without it." Not an argument that one might want to use with those older women who rely on Social Security for 90 percent of their income or those Enron retirees who are now totally dependent on Social Security.

Fourth and most important, there is the President's Commission on Social Security. All of those appointed to the Commission last May were supporters of privatization, which may explain why none of those appointed to the Commission last May represented recognized senior, disability, women's, or minority organizations. The three plans put forth by the Commission last December all include variations on the privatization theme. All of the plans would jeopardize the Social Security guarantee in one way or another:

- Privatization would drain between \$1 trillion and \$1.5 trillion from the Trust Fund over the next decade alone.

- Privatization would shorten the life of the Trust Fund. One plan would increase the long-term Social Security deficit by 25 percent. Another tries to deal with this deficit by transferring \$6 trillion from the U.S. Treasury between 2021 and 2054 to make up the deficit. Taking general revenues might help Social Security but it would also eliminate resources necessary for Medicare, Medicaid, the Older Americans Act, job training, education and other essential programs.

- Privatization would jeopardize benefits to current and future beneficiaries. One of the Commission's proposals would cut benefits for future retirees by calculating initial benefits on the basis of growth in CPI rather than wages, which would greatly reduce standard of living. Future retirees could face cuts of 40% or more. Those benefit cuts are not voluntary. They would affect all beneficiaries, not just those who opted for individual accounts.

- Privatization would force workers to work longer in order to maintain benefits.

- Privatization would reduce disability and survivor benefits.

- Privatization proposals also raise a number of serious practical problems that have to be addressed. The Congressional Budget Office has identified some of those questions (Social Security: A Primer, September 2001), including whether people would be required to convert their private account assets into an annuity and whether they would have to have joint annuities to protect dependents; whether and how beneficiaries would be protected against downturns in the stock market or outliving their assets; how the system would handle benefits for workers' families, for survivors of deceased workers, and for disabled workers; and whether there would be subsidies for people with low income and intermittent work histories, as Social Security does now?

Sending out glossy, slick certificates wouldn't answer those questions. Sending out a certificate won't provide a guarantee if that guarantee doesn't exist in law itself. Sending out a certificate won't put the money back in the Trust Fund that has been used to provide tax cuts for millionaires. But, if certificates are going to be provided, at least they should follow basic truth in advertising standards.

The certificate should state clearly that, as the Congressional Research Service has

concluded, it provides no more protection than already exists under law. It's not an ironclad guarantee. Senior citizens, survivors and disabled workers can't use it to obtain their benefits in a court of law. The only real promise is that the Social Security Administration will follow the law until and unless Congress changes that law. Certificates don't guarantee that Congress won't act to cut benefits for current or future beneficiaries.

Any certificate should state clearly that Congress may pass a privatization initiative that will reduce Social Security benefits by the amounts received from individual accounts. Many of my constituents are just now finding out that their \$300 tax rebate last year is coming from the tax refunds they thought they were due this year. We should be very clear and very precise so that there are not any similar surprises in the future. We should also make sure that beneficiaries understand that Congress reserves the right to change benefit calculations that would cause workers to work longer in order to stay in the same place.

And, perhaps, instead of just sending certificates to current beneficiaries and beneficiaries as they enroll, we should also send a warning to future beneficiaries that we are not making them any promises. They might be interested to know that we are not guaranteeing their benefits and that we are making no commitment that they will not face substantial reductions like those envisioned in the Social Security Commission proposals. We should warn them that Social Security may not be there for them when they need it.

Or, instead of wasting taxpayer dollars on an election year gimmick, we could take two steps to prove our commitment to Social Security.

First, we can vote to reject privatization. Groups like the Urban League, the National Women's Law Center, the National Committee to Preserve Medicare and Social Security, the United Cerebral Palsy Association, the Alliance for Retired Americans and many, many others have raised serious objections to privatization proposals.

Yesterday, I was visited by members of the National Silver Haired Congress. The Congress is a non-partisan organization, dedicated to representing "the best interests of all elder Americans." Members introduce, debate and vote on resolutions and then present those resolutions to the President and Congress. Helen Heyrman, the "Senior Senator" from Illinois, introduced a resolution to "retain Social Security as a Guaranteed Benefit," a resolution that passed overwhelmingly as a top priority of this year's Congress. The text of the resolution is attached to my testimony.

I hope that we will follow the lead of the National Silver Haired Congress by rejecting privatization. At least, we should have a full and fair debate where their concerns are addressed.

Second, we can vote to reject tax cuts for the wealthy that jeopardize Social Security. Peter Orzag from the Brooking Institution has said that the tax cuts passed last summer

but not yet implemented will exceed the entire Social Security deficit over the next 75 years. I introduced the First Things First Act, H.R. 2999. My bill would delay changes in the top marginal tax rates and elimination of the estate tax (while lifting the exemption for family-owned businesses to \$4 million) until we've protected Social Security and Medicare and met other critical needs, such as providing a comprehensive Medicare prescription drug benefit. Certainly, we should not pass the tax provisions in the President's budget that would drain \$1.5 trillion from the Trust Fund.

Mr. Chairman, I want to thank you again for giving me the opportunity to be here today. I hope that we can put these guarantee certificate proposals to rest and instead work together to keep the security in Social Security and improve the financial future for retirees, disabled workers, survivors, and dependents.