



# ***THE NATIONAL COMMITTEE TO PRESERVE SOCIAL SECURITY AND MEDICARE***

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Testimony before the Senate Special Committee on Aging  
Boomer Bust? Security Retirement in a Volatile Economy

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National Committee to Preserve Social Security and Medicare

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Mr. Chairman and members of the Committee:

I greatly appreciate the opportunity to come before you today and testify regarding the current economic crisis and its impact on retirement security. As President of the National Committee to Preserve Social Security and Medicare, I represent over 3 million seniors who understand the importance of Social Security and Medicare, and share a passion to see these critical programs preserved and strengthened.

Mr. Chairman, it is particularly appropriate to include Social Security in your hearing on the economic crisis today because the program was born out of economic circumstances much like these during the Great Depression. At that time, only a few companies offered pensions and no one had invented 401(k) plans or IRAs. Prior to Social Security, people saved what they could during their working lives, and those with families routinely moved in with their children. Over one-half of older adults lived their retirement years in poverty.

When the Great Depression hit, it wiped out what little savings both workers and their parents had accumulated over the years. Social Security created a reliable, modest stream of income for older adults, providing a cushion for them to leave the workforce and make their jobs available for younger generations desperate to find work.

It is much the same today. Social Security provides modest benefits – the average benefit is only \$13,800 a year – but those benefits are crucial. A full two-thirds of the elderly receive more than one-half of their income from Social Security, and one-in-five have no other income but Social Security. If you don't count Social Security today, almost one-half of those over age 65 would have incomes below the poverty line – just about the same poverty rate as before the enactment of Social Security.

Many people do not realize that in addition to providing a stable, reliable source of retirement income, Social Security is also our nation's largest disability program, and our largest children's program. The disability benefit is often the only disability insurance available to workers, especially those in high-risk occupations who are most likely to need the coverage. Similarly, families with younger children who have competing demands on scarce resources often neglect to purchase sufficient life insurance coverage, leaving surviving spouses and children struggling to replace the primary wage earner's

income. Social Security provides life and disability insurance worth over \$400,000 each to every eligible worker.

Benefits such as those provided by Social Security cannot be found on the private market. Unlike any other retirement program, Social Security provides a steady stream of income that you cannot outlive, with built-in protection against the ravages of inflation. It provides benefits not just for workers but for their spouses and dependent children, as well as for divorced spouses and their dependent children. A guaranteed benefit that is unaffected by the ups and downs of the stock market is especially important at times like these.

Social Security's benefits are particularly important to women and minorities. Almost one-half of all widowed, divorced and single women age 65 or older receive 90 percent or more of their income from Social Security. Thirty percent of African-American elderly couples and almost 60 percent of unmarried African-American seniors also receive 90 percent or more of their incomes from Social Security. For Hispanics, those percentages are even higher – almost 40 percent of couples and almost two-out-of-three elderly singles with almost total reliance on Social Security.

Franklin Roosevelt had intended to create Medicare at the same time as Social Security but his goal was accomplished thirty years later. At that time, much like today, private insurance companies had little interest in insuring the health of older Americans. I used to represent Hartford, CT, the insurance capital of the world, in the U.S. House of Representatives and I can assure you, most insurance companies don't want to insure seniors. They have to answer to their stockholders and to the public, and seniors tend to have more claims than younger workers. Prior to Medicare, this left less than one-half of those over age 65 with any kind of health insurance, and what they had was very expensive.

Medicare changed all that. By pooling large groups of seniors together and sharing risk, Medicare has provided basic, universal and affordable health care to those over age 65. Medicare today provides insurance coverage to 97% of older adults, and although costs are growing, the program's efficiencies have allowed it to keep cost growth over time at about the same level as private insurance for workers, despite seniors' higher utilization of health care services.

Social Security is a rock in a chaotic financial world. Unlike what you have just heard about the condition of private retirement savings, Social Security checks keep coming every month like clockwork. The Social Security Administration did not miss a step after Hurricanes Katrina and Rita, and the first benefit checks went out to the families of those who perished on 9/11 within 3 weeks of that catastrophe. Through wars, natural disasters, or financial calamity, Social Security checks provide stability and cash to those who have lost everything else. Unfortunately we don't have statistics, but we hear anecdotally that the economic crisis has created a situation exactly the reverse from the Great Depression – instead of seniors moving in with their adult children, today's boomerang generation is

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moving in with their elders. And in both cases, their Social Security check is the foundation of the extended family's income.

Some economists have been pushing for cuts in Social Security benefits as a way of addressing our long-term budget deficits. I'm here to tell you that would be an extraordinarily bad idea. Benefits are modest to begin with, and benefits for future retirees are already being reduced as a result of the phase-in of an increase in the retirement age. Although essential to keep the elderly from completely losing ground to inflation, Cost-of-Living Adjustments can't keep up with the dramatic increases in the cost of health care over the long term.

Seniors spend significant portions of their incomes on health care, even with Medicare, and, if current projections hold true, future retirees could see over one-half of their Social Security check absorbed by health care out-of-pocket costs by 2025. Future retirees also face a traditional pension system that has significantly eroded, plummeting housing values, and individual savings that have evaporated. They will also need to stretch their retirement savings over a longer period of time as they will live longer than the generations before them. Our children will clearly need a dependable, solid Social Security benefit just as much as today's retirees.

Mr. Chairman, despite all the popular press, we do not have an entitlement crisis in this country – we have a health care crisis.

Please don't misunderstand me: I recognize that the long-term deficit is real. But it is not caused by Social Security or Medicare. Instead, it is a symptom of a problem that extends far beyond the federal government's outlays and revenues. Unless we address the real issue, any attempt at a solution simply will not work.

The growth in our nation's health care costs, in both the public and private sector, has far outpaced the growth of income in the United States for decades. If the historical rate of growth were to continue unabated into the future, we would end up spending virtually every penny of our GDP on health care in 75 years – something that is clearly not sustainable. In fact, if you look at CBO's projections under this scenario, if every entitlement in the federal budget were repealed outright – eliminating Social Security, Medicare, Medicaid, food stamps and other critical programs – but nothing were done to slow the growth in health care costs overall, we would still find ourselves spending almost 70 percent of GDP on health care by 2082.

If we successfully slow the rate of growth of health care to equal per capita GDP, the root cause of Medicare's long-term funding gap will disappear. If, on the other hand, all we do is cut Medicare, it will do nothing to slow the overall growth in health care costs, and we certainly won't make the costs disappear. They will merely be shifted to seniors, who are least able to bear the additional cost burden, and to the private sector and state budgets. In the end, health care costs will still consume ever-increasing amounts of our GDP, making our businesses less competitive and crowding out other needed spending in the budgets of both individuals and government.

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As for Social Security, today it costs 4.3 percent of GDP and is expected to rise to a high of 6.1 percent and then drop back down to 5.8 percent by 2046. This is a modest increase, especially when considering that the percentage of the population composed of people over age 65 will grow from 12 percent to about 20 percent in that time.

Unfortunately, Social Security has been unfairly singled out by those concerned about the federal budget. It has been swept up, together with Medicare and Medicaid, into the scary sound-bite of an ‘entitlement crisis.’ The word ‘entitlement’ itself is a pejorative these days: it reminds us of those seemingly ‘entitled’ fat cats on Wall Street. It also implies a program that is out-of-control – with spending on automatic pilot until it completely drains our Treasury.

But Social Security is anything but out-of-control. In fact, it is the most fiscally conservative and responsible part of the federal budget. Most people don’t realize that Social Security is prohibited by law from paying benefits unless it has sufficient revenue to cover the cost of the outlays. As a result, it has a built-in check on its spending. If revenues fall short of the amount needed to pay benefits, the benefits are automatically reduced. It takes an act of Congress to pay full, promised benefits if there is a shortfall – much like any discretionary government program.

Finally, we come to the issue of Social Security’s finances. According to the program’s Trustees, Social Security will have enough funds to pay full benefits through 2041 even if no changes are made to the program – and about 78 percent of benefits thereafter. To put this in perspective, the cost of closing this deficit is about the same as making President Bush’s tax cuts for the top 1 percent of taxpayers permanent. Nothing about Social Security’s long-term funding has changed as a result of the economic downturn. Unlike virtually every other facet of our economy, Social Security’s financial condition has not deteriorated, and it is not placing any additional burden on our economy or the long-term budget.

Social Security and Medicare are the only programs in the federal budget that are required to project their finances over 75 years. This period is also considerably longer than any private pension or the public pensions of most other countries. The longer valuation period was intentional. Because Social Security is such a linchpin to retirement, it was understood that any changes would need to be implemented gradually over a period of many years. Instead, this 75 year projection – along with even more speculative projections into the infinite future – have been used by opponents of the program in an opportunistic way to convince younger Americans that the program is broken and won’t be there for them, when this could not be further from the truth.

A final fallacy I would like to discuss for a moment is the myth surrounding the Social Security Trust Funds themselves. The Treasury bonds in the Trust Funds are often described by conservative economists as ‘worthless IOUs’, implying they are not worth the paper they’re printed on. In fact, the bonds in the Trust Funds are legally no different than the bonds that represent the rest of our federal debt – they are all backed by the full

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faith and credit of the United States. And U.S. bonds are the safest investment possible in these uncertain economic times. When the stock market goes into a tailspin, where do investors put their money for safety? In U.S. Bonds. In fact, they are so safe compared to the stock market that at one point investors were effectively paying the U.S. government to hold their money for them.

At a time like this, when we are looking at the potential of trillions of dollars in borrowing over the next few years, we should be thankful, not dismissive, that some of our debt is held by the United States in trust for its own people. Most of our debt is held by foreign investors, and their interests do not necessarily align with ours. The money invested in Social Security will never move offshore in a chase for profits.

Much of the theory behind the push to cut Social Security and Medicare comes from economists who believe older people should be forced into consuming less by reducing the level of resources available to them in the future. But seniors today have median incomes about one-half the level of their children, even with Social Security. If the percentage of GDP allocated to them does not increase as their percentage of the population grows, each succeeding generation will become increasingly less well off than the generation behind them. America is the most powerful and economically well off country in the world. And yet even at its most expensive, our Social Security system will cost a substantially smaller percentage of our GDP than many other industrialized nations are already spending on their programs for the elderly today.

The bottom line is we can afford Social Security and Medicare in the future, and indeed, we should be focusing on strengthening and expanding these critical programs rather than attempting to cut them. We especially should not be using them as pawns in some grand budget deal that focuses more on the dollars they cost than about the people they protect or as a bargaining chip for other legislation. Every industrialized country has a social insurance system that spreads risk and protects its people, especially its younger generations. We in the United States can afford to do no less.

Mr. Chairman, I'd like to conclude by thanking this Committee for its support of including seniors in the American Recovery and Reinvestment Act. The \$250 checks that were included in the legislation will be much appreciated and should provide a stimulative effect as seniors historically spend over 90% of their income each year. The funds included for the Social Security Administration are desperately needed to address the additional disability claims that always accompany bad economic times – especially at a time when the agency is already straining to clear out extensive disability backlogs. And funds for programs funded through the Older Americans Act will help meet an ever increasing need.

Thank you for inviting me to testify here today.

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