

Senate Democratic Policy Committee Hearing

“An Oversight Hearing on the Bush Administration’s Plans to Privatize Social Security”

Transcript

January 28, 2005

Sen. Dorgan: I’m going to call this hearing to order. This is a hearing of the Democratic Policy Committee of the United States Senate. We appreciate all of you being here and especially appreciate the witnesses joining us today.

Let me make a few opening comments, and then call on my colleagues for some opening comments. And then we will get to the witnesses. We have two panels of witnesses today.

Let me say at the start that in the context of big issues and small matters, this issue of Social Security, Social Security change, reform is a very big issue and a very important debate. The Social Security Program has lifted tens of millions of senior citizens out of poverty in this country over many, many decades. Since Ida Fuller of Vermont received the first Social Security check in America, which was \$22.54, tens of millions of Americans have had their lives enriched by having this insurance program in place when they have retired.

Now it is certainly the case that we have demographic challenges in the Social Security system. People are living longer, healthier and better lives. As a result of that, we have made some adjustments to Social Security, and we will make adjustments in the future as well. But major surgery is not required to fix this demographic challenge.

There are some who have never liked the Social Security Program, have never wanted the Social Security Program to exist. And there was a leading spokesman on the conservative right this week who said, “The Social Security Program is the soft underbelly of the welfare state.” Describing, I suppose, a body of thought that Social Security is somehow unworthy and should not exist.

I feel very strongly that the Social Security Program has been a significant and strong part of this country and its economic growth and opportunity and that we ought to fix it, adjust it instead of abolishing it or privatizing it.

Let me make a couple of other observations. Social Security [inaudible] quote. There is not a crisis. We do face some challenges, which, in my judgment, with adjustments, can be met. But there is not a crisis.

President Bush has long felt that we should privatize Social Security. That goes back to his first race for the Congress in 1978 in which he called for privatization of the Social Security Program.

I don't demean him for taking that position. I feel very strongly that he is wrong. And we will have a very aggressive debate on that.

But what the president is proposing at this point is that we borrow somewhere between one and \$3 trillion, use that borrowed money to create private accounts, invest that money in the stock market and at the same time, according to a memorandum that has been leaked from the White House in recent weeks, they would propose that we reduce benefits in the Social Security Program. I think that is a horrible, horrible public policy to pursue. And my hope is that Congress will reject that.

I believe that we should pursue two pieces of public policy. One, strengthen and preserve the Social Security system as the core insurance, retirement insurance program for this country. Second, I believe that all of us support private accounts in the context of 401(k)s and IRAs and pension incentives.

We spend \$140 billion a year in tax incentives right now to incentivize private investment accounts. But private investment accounts for retirement security are very different than the basic core retirement insurance program called Social Security. One is the foundation, and the other represent the stories, first, second, third floor that you build upon the foundation for retirement security.

There is a big difference between those two approaches. I do not support privatizing Social Security. I think it is a step in the wrong direction. I think it will undermine retirement security for tens of millions of Americans in the future.

So at today's hearing, we will have an open discussion of all of that. We have, I think, interesting witnesses. We have many colleagues who have joined me. And as we begin, I would like to call on my colleagues for some brief opening statements, following which we will hear from witnesses.

Let me call on Senator Mikulski.

Sen. Mikulski: Thank you very much, Senator Dorgan. This hearing is really one of the most crucial in terms of the public policy debate. I'm delighted to be here as both the Senator from Maryland, but also as the dean of the women in the United States Senate. We the women, we the Democratic women of the United States Senate intend to play a very active role in this debate because Social Security disproportionately affects women in terms of their retirement years.

Speaking very emphatically, I want to state clearly for the record I am absolutely and irrevocably opposed to the privatization of Social Security. It will hurt millions of American women. It will devastate American families, and it will have a very dire impact upon our economy.

Women and working families need to know they must rely on a guaranteed, inflation-proof lifetime benefit. When you get old and when you're sick, there are not many things that you can count on. But you should be able to count on Social Security.

There are many reasons why women are vulnerable to the privatization of Social Security. All of our lives we're placed in the penalty box just because of who we are. We earn less money than men. We often work in less jobs that are likely to have a pension. We're often in part-time jobs because of child rearing responsibilities. And then we live longer.

And when we retire, we get less. Should women be worried about this? Absolutely, yes. And already in the public debate Chairman Thomas over in the Ways and Means Committee, that I have a great deal of respect, says we now might have to take a look at giving benefits on the basis of race or cutting benefits because women live longer. I don't think Social Security benefits should be race-based or gender-based.

I thought in America we were all created equal. And we want it not only in the federal law book, we want equality in the federal checkbook. And maybe we need a constitutional amendment to guarantee it.

It's outrageous what we're talking about here because we do not want — we want a guaranteed benefit, not a guaranteed gamble. Anybody that lives in Maryland knows all about slot machines. And we know what a gamble is, that often when you pull that lever, you come up with three lemons rather than three gold bars. I want a guaranteed benefit, not a guaranteed gamble.

As we look at these issues, we are working off — the Democratic women have deposed a checklist that we're going to be asking. Does Social Security have a guaranteed lifetime inflation-proof benefit? Will it preserve Social Security's protection for workers when they're disabled? Will we protect against the further impoverishment against women by maintaining the progressive benefit structure? And will we strengthen the financing of Social Security by real solutions and not gimmicks?

We want to make sure that security stays in the words Social Security. Our seniors' retirement needs to depend upon this. There are two principles: honor your mother and your father. It's a great commandment to live by. It's a great commandment to govern by.

The other is in this country this is a social contract. And promises made should be promises kept.

I look forward to the debate and the discussion. Thank you very much, Mr. Chairman.

Sen. Dorgan: Senator Mikulski, thank you very much. And I appreciate your being brief.

We have a good number of Senators who have joined us, and we want to do opening statements. And we appreciate very much that statement.

Let me call on the Democratic leader, Senator Reid.

Sen. Reid: [inaudible] I'll try this again. I congratulate Senator Dorgan for scheduling this

hearing. It's an issue that's on the minds of the American people. I especially am grateful for the witnesses for being here today. [inaudible]

Sen. Wyden: Thank you, Mr. Chairman and colleagues. I serve on the Senate Finance Committee that's going to handle Social Security legislation. And I intend to work with all Senators to meet the genuine challenges that lie ahead for Social Security.

What I think you're doing, Senator Dorgan, is especially helpful because now is the time to move the issue of Social Security reform from fanciful theory to what my mother called taking out a sharp pencil and making the numbers add up. Now this morning, we woke up to a new report in the Associated Press that the administration has another idea for Social Security reform. The details are sketchy. Yet what is clear is that Americans still aren't getting much in the way of answers or even specifics.

And I believe before Social Security benefits are cut and before Americans are asked to pony up \$2 trillion for a plan that may not fix the problem, Americans deserve some of that straight talk, as my mother said, on how these numbers add up.

The other point I wanted to mention, Mr. Chairman, is that I hope that in these hearings we take a careful look at the role of Wall Street in this issue of Social Security reform. Like colleagues, I voted consistently for measures to promote investment in savings, from capital gains tax cuts to expanding IRAs. But I will not support congressional legislation that would let secure Social Security retirement funds ever under any scenario be turned again and again and again so that more equity traders can buy summer homes in the Hamptons.

The topic of transaction costs and management fees on Wall Street may sound kind of eye-glazing, but Social Security should not ever be used as a vehicle for the redistribution of wealth. So there are important issues for us to take a good look at, Mr. Chairman. I hope that we will very quickly get some of the details about the administration's sketchy proposal that was just made available a few hours ago because as far as I can tell, the American people are getting very little in the way of answers and deserve better.

Sen. Dorgan: Senator Wyden, thank you very much.

Senator Feinstein?

Sen. Feinstein: Thank you very much, Mr. Chairman. And thank you for holding this hearing.

And my thanks to the witnesses for being here today. I feel very strongly on this issue. I feel if there's ever an issue that should unite our party, it is keeping Social Security alive, well and making the changes that we need to do it. And I don't believe that a substitution of the benefits structure into privatization or privatized accounts is the way to go.

I have never felt more strongly about an issue than I do. I represent the largest state in the union. I've got 4.3 million people on Social Security. I've got 860,000 of them that have no other source. And we're the highest cost state in the union.

When we produce new jobs today, more than likely they are part-time. More than likely, they are minimum wage. And many companies are reducing pension and retirement benefits.

Therefore, in my view, Social Security and keeping it intact has become more important than ever before. Let me submit to you that I think the key is to make the system actuarially flexible. And my thoughts are why not have the Social Security board of trustees be authorized to retain outside actuaries, review the system every five years and with the goal of maintaining the benefits, provide those necessary revenue or benefit changes in a recommendation to the Congress and allow the Congress to vote it up or down.

In that way, we maintain the system. If someone wants to come up with a privatization over and above that so that people that wanted to go outside of the system and make these investments early on, particularly young people, I find that agreeable. But I believe very strongly that we've got to keep the system intact.

Now if I understand the president's model two plans, the costs would exceed non-interest income in 2006. If this plan were enacted, the government would need to use interest the trust fund earns on its bonds to pay Social Security benefits. It would have to start redeeming these bonds in 2014 rather than in the 2028 as under current law.

So these plans would advance the date at which the trust fund must start using a portion of its interest income to pay Social Security benefits. And they would also add to the debt held by the public, unless they were fully and contemporaneously financed by offsetting tax increases or reductions in other government programs.

I'm just not willing to do this. And I would hope — and this is my wish — that we stand together as Democrats and that we find the best mechanism to allow the system to actuarially adjust as it goes on for the next 75 year period. I thank you very much.

Sen. Dorgan: Senator Feinstein, thank you very much. And again, I appreciate the brevity. There is so much passion here on all of these issues.

And let me call next on Senator Sarbanes.

Sen. Sarbanes: Well, Mr. Chairman, thank you very much. First I want to commend you for calling this very timely oversight hearing on the plans of the Bush administration to privatize Social Security and for assembling an impressive group of experienced, knowledgeable and thoughtful witnesses.

I look forward to hearing from all of them this morning. And I'm going to limit my statement. There are a couple of points I want to make, but I'm going to limit it because I do want to get to them.

I am especially grateful to James Roosevelt, Jr. for taking the time to be with us. In a sense, he is here representing his grandfather in whose administration the Social Security system was established in the face of much criticism, skepticism and outright hostility, it ought to be noted. James Roosevelt, Jr. is also here as a former associate commissioner in the office of retirement policy in the Social Security Administration and knows firsthand how the system works, the challenges it faces and the opportunities it creates.

And, sir, we thank you very much for being here this morning.

Mr. Chairman, the Social Security Act was signed into law in 1935, began paying benefits in 1940. It has a long and impressive history. Its objective was and has always remained to assure that when Americans reach the end of their working lives, they will be able to live in security and dignity shielded against the ravages of poverty.

Over 65 years, it has done just that. Social Security has provided each succeeding generation of retirees with a guaranteed benefit — and I underscore that phrase, a guaranteed benefit — to last their entire lives. It is proved to be an extraordinary, prudent and effective policy against destitution. Today Americans over 65 have the lowest poverty rate of any age cohort in our country.

Now retirees are far from being the only Americans for whom Social Security is a lifeline to a decent life. It is often overlooked that through the disability program, Social Security helps to ensure disabled workers and their families against economic hardship. And through the survivors' program, it protects spouses and children who have lost a spouse or a parent.

According to the Social Security Administration, 30 percent of Social Security benefits go to the disabled and their families or to the children and spouses who have lost their father or mother, husband or wife. In recent weeks, the president's talk about the need to change fundamentally the nature of the program has prompted numerous letters to the editors. And I want to quote just briefly from one of them.

"I have a great life and a great job, and I owe them in large part to those Social Security survivors' benefits. My father died when I was two years old, and my mother became disabled when I was 14 and died when I was 17. Those Social Security checks provided food and shelter. And we would have been in big trouble without them. What is the logic of a so-called reform that could sacrifice the futures of so many children?"

I just want to make one final point. We're confronting a situation in which the administration, in my view, is once again manufacturing a crisis. There is no crisis in the Social Security system. The system is not on the verge of bankruptcy. The facts are that Social Security ran a surplus of \$151 billion in 2004, is projected to run a surplus of \$169 billion in 2005. Indeed, surpluses are

predicted throughout the entire 10-year budget outlook that CBO provides and are projected until 2018 by the Social Security trustees.

The trust fund will build up over that period. Then we have to start drawing from the trust fund. The president asserted just the other day, "The system will be in the red in 13 years. And in 2042, the system will be broke."

The fact is that even if nothing were done between 2042 or 2052, depending on whose estimate you use as to when the monies in the trust fund would be exhausted and the Social Security trust fund were to spend down to its last penny, Social Security would still be able to pay 75 percent of its scheduled benefits on the basis of the money still coming in to the trust fund. It is not accurate to say, it is not accurate to say, as the president did just the other day, if you have a child who's 25 years old, when that person gets, you know, gets near retirement, the system will be bankrupt.

I mean, the message people take is there'll be nothing there. It'll be empty, nothing. In fact, under the current system with no changes at all, that 25-year-old worker would receive greater benefits even if the current system were paying only three-quarters of the scheduled benefits, the 75 percent, which I said the system would still be able to pay out, would get greater benefits than he or she would under the plan, which the president seems to be proposing.

This point is regularly overlooked, and I think it's one we need to focus on. There are many others, but, Mr. Chairman, for the sake of getting to our witnesses, I'll defer.

Sen. Dorgan: Senator Sarbanes, thank you very much.

Senator Dayton?

Sen. Dayton: Thank you, Mr. Chairman. And thank you for holding this hearing. And I'll try not to repeat what my colleagues have already said. But I do note that former Vice President Walter Mondale, one great Minnesotan, once quoted Will Rogers as saying of President Herbert Hoover, "It's not what he doesn't know that worries me. It's what he knows for sure that just ain't so."

And I believe that observation applies to the current president's flights of fancy regarding Social Security. I note as my distinguished colleague, Senator Sarbanes, just said that the president has used words like bankrupt and broke and also flat broke. And if I take Webster's definition of the word broke, it says penniless, which is the point Senator Sarbanes was just making.

This attempt to scare the American people, especially younger to middle-age workers that Social Security will be penniless when they retire, which, as he observed, the Social Security trustees themselves would disagree with, according to their report. And another word that I think should be stricken from the discussion about this, especially in the mid to long-range, is the word will. These are all based on complex formulas that are based on underlying assumptions about the U.S. economy.

And the most often cited projection of the Social Security trustees, the so-called mid-range projection, is based on an assumption that the U.S. economy will grow at about half of the rate of the last 40 years, in which case, Social Security [inaudible] all the obligations of the federal government are going to be strained. In which case, the private sector performances in the bond and stock markets will not be comparable to what they were in the previous 40 years.

Whereas what's called the high growth projection of the trustees is really, bottom line, a continuation of the growth rate of about 3.0 percent real GDP and other demographics continuing, which has been the average over the last 40 years. In which case, the projection is the Social Security trust fund will be able to meet all of its promised benefits and still enjoy an annual surplus.

So, you know, as Yogi Berra said, very difficult to make predictions, especially about the future. But we'd better be careful. And we are making decisions today based on those assumptions. But we recognize that they are assumptions and they are projections well into the future and speculative at best on that basis before we start doing serious damage.

Thank you, Mr. Chairman.

Sen. Dorgan: Senator Dayton, thank you very much.

Senator Johnson, finally?

Sen. Johnson: Well, thank you, Mr. Chairman.

And welcome to the distinguished members of this panel. I'll be very brief so we can get on to their testimony.

But I think it is apparent that while there are some modifications to Social Security that would be best for us to debate and undertake, the fact is that there is no immediate crisis going on in Social Security. In fact, the Social Security Administration tells us that if we do nothing — and I don't recommend that — but if we do nothing, that the system is solid through 2042. The CBO tells us 2052, well past the center point of this century.

This Congress knows how difficult it is to project what is going to happen to our economy a year from now, much less 50 years from now. But we ought to keep in mind that even after that point, mid-century when today's middle schoolers are in retirement, that even then the payments, if we do nothing, will be adjusted for inflation larger than the payments that today's Social Security recipients get.

And so, yes, it will fall somewhat short of the projected increases based on wages. But it would still be larger than today's Social Security recipients.

Now it would strike me that what we have being proposed out of the White House and some of their allies is a plan not so much to save Social Security, but an ideologically driven plan to radically restructure a system to privatize it to move away from what has been a tried and true system of assuring guaranteed benefits for all of America's seniors. Now there is a crisis only if it is the administration's plan not to pay back the bonded indebtedness to the Social Security trust fund and to use that revenue instead to fund tax cuts for the very wealthiest families of this country.

But if, in fact, these bonds are paid back, as every other bond has been paid back in the history of this republic, there is no crisis. In fact, Social Security currently has a large and growing trust fund which is constituted by treasury certificates, which are the world's gold standard for legal obligations.

And so, I think the American public needs to know what, in fact, is going on here. And the rhetoric has been such that there are a great many people, particularly a lot of younger people, who have this false conclusion that somehow Social Security will not be there for them and so, some sort of radical restructuring needs to take place. When, in fact, no such restructuring needs to take place.

To put some perspective to this, the under-funding of Social Security is roughly equal to about a fifth of the cost of President Bush's tax cuts made permanent. In fact, if we were to roll back the tax cuts only for those Americans who make over a half million dollars per year, that would be adequate to fully make up the financial shortfall in Social Security to the degree that there even is a financial shortfall in Social Security.

To move away from what has been a defined benefit program for every South Dakotan — every American knows to the dime what it is they're going to get when they retire — to a plan which would result in benefit cuts and which would result in the uncertainties of the stock market in those run-up years to their retirement would be a tragic mistake.

Now I am glad to work with the White House and with the president on 401(k) and IRA legislation or other kinds of initiatives which encourage people to save and to invest in the stock market if they so choose to augment their Social Security benefits. I think that there's more that we need to do. We do not save enough in this country.

But that ought to be over and above Social Security. Social Security ought to be the foundation. It ought to be the cornerstone of every American retiree and prospective retiree.

They ought to know what it is that they're going to get. And they ought to know that they ought to save over and above Social Security, but that Social Security ought to be absolutely rock solid. There's no reason to change that philosophy. There's no need to change that strategy.

There are some things that we could do better, long-term for Social Security on into this next century. Well, certainly we ought to have that discussion. But is there a need to radically restructure this program and take away the defined benefit that every American has had the

opportunity to know is there for them? Absolutely not. There is no need to move in that direction. That is a radical restructuring that is utterly unnecessary.

And I look forward to the testimony from this diverse array of experts here today as we work with the White House and with our colleagues on the other side of the aisle on ways that can improve Social Security in a meaningful way while at the same time recognizing the crisis is not with Social Security. If you want to talk crisis, talk about Medicare, Medicaid and the federal budget deficit as a whole. That's where the revenue problem lies primarily.

Thank you, Mr. Chairman.

Sen. Dorgan: Senator Johnson, thank you very much.

And let me thank all of my colleagues. It is said that when everyone in the room is thinking the same thing, no one is thinking very much. We don't shrink from this debate. We welcome this debate.

We believe that the debate about Social Security and retirement security are very important debates. We believe it's about values. It's a debate about priorities. And in these oversight hearings that we will hold on this subject and others let me say that we will always invite those who have other views as well.

The president held an event dealing with the privatization of Social Security at the White House. And I believe only those who supported his position were there and spoke. We invited the administration to be with us today to testify. They chose not to.

We've invited the CATO Institute.

Mr. Tanner, thank you for being willing to be here. We believe it's important to hear different viewpoints as well. And we will always do that and always have in our oversight hearings.

Let me thank the witnesses. And thank you for waiting through our opening statements for your testimony.

James Roosevelt, I am very proud that you are here. Franklin Delano Roosevelt's grandson. Your grandfather in 1935 signed into law the Social Security Act, which has, in my judgment, been very instrumental in making this a much better place in which to live.

James Roosevelt, Jr. is a senior vice president and general counsel of Tuft's Health Plan in Waltham, Massachusetts. He is vice chairman of Tufts Health Care Institute and past president of the American Health Lawyers Association. Harvard Undergraduate, Harvard Law, previously also served as an associate commissioner for retirement policy at the Social Security Administration.

Mr. Roosevelt, thank you very much for being with us. And you may proceed. And as I will say to all of the witnesses, we have your entire statement, which I read last evening. You may summarize your statement for us, please.

James Roosevelt, Jr.: Mr. Chairman, thank you for inviting me to testify today. Members of the committee, it's an honor to be here before you and a privilege to be with this panel, particularly my former boss, Commissioner Ken Apfel, who appointed me as associated commissioner of Social Security.

President Bush invoked the name of my grandfather in his inaugural address. And a television commercial by the proponents of privatization recently used a clip of my grandfather signing the Social Security legislation. Those references are misleading and, frankly, outrageous.

My grandfather, President Franklin D. Roosevelt founded Social Security for very simple but important reasons. He believed that the only enemy that could ever defeat the United States of America was fear itself. And he and my grandmother, Eleanor Roosevelt, looked at America and found fear of want, particularly after retirement of loss of a parent.

It wasn't just during the Great Depression, but as late as 1950, that nearly half of all older Americans were in poverty. And as Social Security payments and benefits began to be available to all of our retirees and our disabled and our survivors, we've reduced that rate of poverty to less than 8 percent in this country, tremendous progress. Zero percent would be where we ought to be, but tremendous progress.

My grandfather believed that Social Security should be simple, guaranteed, fair, earned and available to all Americans. He knew that people who are very successful may also suffer unpredictable reversals that can impact them in retirement. That's why he rejected financing Social Security out of general tax revenues that would be variable with budget negotiations every year. And instead, he insisted on a payroll tax shared between employers and employees.

He was adamant that Social Security was an insurance to assure basic needs in retirement. I repeat, its success lies in the fact that it is an insurance plan, not an investment plan or a welfare plan.

As a former Wall Street lawyer, my grandfather knew very well the risks and rewards of the stock market. He fully supported the opportunity of Americans to make money in the stock market. In fact, he thought that should be fair, too. That's why he started the Securities and Exchange Commission. But Social Security was and is something different.

It is the guaranteed basis of a secured retirement. It is the guarantee that the basic needs of older will not have to be provided by their children while they try to provide for themselves and their children. And that's the way it was before Social Security. And we risk returning to those burdens if the guaranteed benefit is eliminated.

Drastic changes which divert the payroll tax to privatization will almost certainly eliminate that guaranteed benefit. In fact, privatization threatens to bring about the collapse of the entire Social Security system.

FDR was realistic about the need to adapt the details of Social Security as the workforce evolved. In my office I have the original handwritten note that my grandfather sent to my father outlining the principles of Social Security. I kept that with me in my office when I worked for Commissioner Apfel at the Social Security Administration, and I keep it with me today.

Now by the time the program was enacted two and a half years later, the details were quite different. But the principles remained the same. It should be simple, guaranteed, fair and available to all Americans.

Throughout the six successful decades of Social Security it has been adjusted in both benefits and revenues from time to time. The last time was when my former congressman, Speaker Tip O'Neill, and a conservative Republican economist named Alan Greenspan got together on a commission to come up with adjustments.

But they continued to observe FDR's principles of a secure, guaranteed retirement income provided by an insurance system that all workers pay for. Then, as now, taking the fear out of the Social Security debate rests on speaking truthfully. Use of real data is essential. The people who are seeking immediate, drastic change should recognize, as Senator Sarbanes pointed out earlier, that the Social Security trustees, the majority of whom were appointed by the president, say that the system can pay full benefits with no changes until 2042. The Congressional Budget Office says 2052.

They should not distort the words of people who can't speak for themselves anymore, like Senator Moynihan, who favored private accounts as an addition, not a detraction from Social Security. And in his plan that he submitted in 1999, said that even that would only work with a 50 percent increase in the Social Security tax, which I don't think is on the table today.

Most of all, the creation of fear by the unjustified use of words like crisis and bankruptcy and even reform when what is needed is not reform but adjustment, is destructive of a reasonable debate about what adjustments in Social Security will ensure the payment of full benefits throughout the 21st century.

Every honest person knows that there is no crisis, there is no threat of bankruptcy, and what is needed are incremental adjustments, not repeal through drastic measures like privatization. Just as bad is the use of terms like worthless IOUs speaking of U.S. treasury bonds, which are held by the Social Security trust fund.

These attempts to divide grandparents, parents and children on this issue are an attack on the most successful program this country has ever had. Social Security unites the interests of my parents' generation, my contemporaries and my children's generation. It can be strengthened with incremental changes.

To achieve that, the Congress and the White House must work together without ideological agendas. FDR's goal of freedom from fear can be preserved. Thank you, Mr. Chairman and members of the committee, for your efforts to achieve this goal.

Sen. Dorgan: Mr. Roosevelt, thank you very much for your testimony.

I did not mention, and I should, that the second panel that we will hear from today is a panel that will include two employees of the Social Security Administration to talk about the information outreach plan that has been distributed by the administration asking employees of the Social Security Administration to make the case that there is a crisis and to make the case for private accounts, which, I believe, is improper. This issue has been raised publicly, and we're going to explore that in the second panel today. I wanted to mention that.

Mr. Apfel, we appreciate very much your being here. Kenneth Apfel was the head of the Social Security Administration from 1997 to 2001. He has a very distinguished academic record. He has worked previously at the Health and Human Services Agency, the Office of Management and Budget and then, as I indicated, he headed the Social Security Administration. He has a very distinguished amount of public service. He now is Sid Richardson's chair in public affairs at the University of Texas in Austin.

Mr. Apfel, I read your testimony last night. It is extraordinary testimony, but lengthy. And I appreciated it a great deal because it provides a great deal of information. And I'm going to ask all my colleagues in the Senate to be able to read it as well. And I will ask that you summarize it. But your contribution to this hearing is very important. And I appreciate your being here.

Audience member: Mr. Chairman, if I could just ask a brief question to you?

Sen. Dorgan: Yes.

Audience member: Have all the witnesses asserted that they are not receiving any payments from the DPC for their testimony here today?

Sen. Dorgan: No one is being paid for showing up today. They're here voluntarily, and we very much appreciate their time and their ability to provide a contribution to this debate.

Mr. Apfel, you may proceed.

Kenneth Apfel: Senators, it's an honor to be back with you again. In my testimony today, I'd like to pose three questions. First, is there a crisis in Social Security? Second, does privatization help to solve the long-term Social Security shortfall? And third, are privatization proposals that drastically alter the Social Security benefits structure in the best interest of the young or the old? In a word, the answer to all these questions is no.

First, is there a financing crisis in Social Security? No, the Social Security financing shortfall is relatively modest and certainly manageable without drastic changes. I believe the white hot rhetoric emanating from the White House on Social Security does a disservice to Social Security and to the American people.

Does Social Security face a long-term deficit? Yes, according to recent projections, the trust fund will be exhausted in about 40 to 50 years. And contrary to administration rhetoric, the system will not be bankrupt at that time. As has been pointed out repeatedly by Senators, revenues will be sufficient to pay about 70 to 80 percent of benefit commitments. Repealing a very small part of the tax cuts would be equivalent to revolving a large part of the Social Security shortfall.

My second question relates to whether radical restructuring that we're hearing about, the privatization of Social Security, will by itself, help solve the long-term Social Security shortfall. Absolutely not. Taking payroll tax revenues out of Social Security to create individual savings accounts makes the long-term problem bigger, not smaller. Unless benefits are drastically curtailed or other revenues raised, privatization alone makes the Social Security financing problem worse.

Many argue that benefit commitments will have to be sharply curtailed if we privatize Social Security. This leads directly to the third question, whether drastic alterations in Social Security benefit structures are in the best interest of current retirees or young people. And again, the answer is no.

Now the administration argues that current retirees will be unaffected by the privatization proposals. And I do not in any way question the sincerity of the White House on this matter. But the hard reality is that redirecting current payroll tax revenues erodes financing for Social Security.

These changes destabilize Social Security's commitments and its financing system. Privatization calls into question whether and how benefit commitments made to current retirees will be made in the years ahead. Privatization is not in the best interest of current retirees.

What about future retirees? Will privatization coupled with major alterations in the benefit structure be in their best interest? Again, the answer is no. With privatization, a growing share of retirement income will be based upon the returns of the markets. That could be a real winner for some folks.

But trying to plan to retire in a down-market condition is a risky proposition. Let me provide an example here during my tenure as commissioner. For years we have listened to supporters of privatization extol the virtues of the Chilean privatized system. During a downturn in Chile's

stock market, the head of the Chile system was publicly urging older people to keep working until the markets came back.

If we privatize a part of our Social Security system, we could find ourselves in the same situation as Chile. Frankly, I would hate to see a future U.S. Social Security commissioner urging American older workers to just keep working until the markets come back.

We don't really know how long that wait might be. Social Security ought to be and represent a foundation of support that can be counted on in retirement, no matter what happens to the market.

The president's Social Security commissioner suggested that changing over to a system of price indexing could resolve the financing problem that is generated by partial privatization. The idea of simply using price indexing to calculate future benefit payments sounds harmless enough. But Senators, think of price indexing cuts in terms of how much longer one would have to work to make up for the Social Security cuts.

Price indexing is comparable to an invisible increase in the retirement age for full Social Security benefits. Switching to price indexing in 2011 is equivalent to raising the retirement age for full Social Security benefits to age 71 for 35-year-olds. And it will be equivalent to raising it to age 75 for children in preschool today. Changes of this magnitude are reckless, unnecessary and dangerous to the economic security of future generations.

Before closing, I'd like to say that I've spoken out for many years now as commissioner and many other times about the need to come together to keep Social Security strong for current and future generations. I personally believe that it's part of our moral obligation. And as you know, I was deeply involved as commissioner in genuine bipartisan and non-partisan discussions and forums and agency efforts on this matter.

In closing, let's come together and solve a manageable problem and not create a much bigger problem by privatizing Social Security and in the process, as Senator Mikulski said, let's keep the word secure in Social Security. Thank you.

Sen. Dorgan: Mr. Apfel, thank you very much for coming back to Washington, D.C. to testify at this hearing. We appreciate that contribution a great deal.

Next we'll hear from Mr. Doug Holbrook. Douglas Holbrook is vice president, secretary treasurer of the Board of the American Association of Retired Persons. He became secretary treasurer of the American Postal Workers Union in 1981, retired as chief financial officer of the 360,000-member organization after serving in his fifth term of office. He's been very active in the American Diabetes Association and has received numerous awards for his leadership.

Mr. Holbrook, thank you for joining us. And you may proceed in summarizing.

Doug Holbrook: Thank you, Senator Dorgan, for inviting us to testify today. And to all the Senators who are here this morning, I'm delighted to be here this morning representing our 35 million members of AARP. Social Security is crucial to the economic security of more than 47 million Americans. And making certain that it's strong for future generations is a top priority of AARP.

In this age of heightened insecurity, the last thing that American people deserve is a threat to their own future financial security and a threat to one of the most successful federal government programs in U.S. history. Sometimes it's hard to make that statement, but this is one of the most successful federal government programs in our history.

Yet as we stand here today, Social Security stands in the line of fire. Steps must be taken to strengthen Social Security for our future. But there's a right way and a wrong way.

The wrong way is to take some of the hard-earned money workers paid into Social Security and divert it into private accounts. Diverting money into private accounts would weaken Social Security, put benefits for future retirees at risk and do nothing to ensure long-term solvency. Private accounts are not a way to strengthen Social Security.

Part of the transition to a private account system would cost trillions of dollars. That would add to the federal deficit and increase the federal debt. This is not the legacy we want to leave to our children and grandchildren.

AARP believes there's a better way to strengthen Social Security. We are firmly committed to ensuring that the only guaranteed source of retirement security for Americans is not put at risk. Social Security is the only guaranteed inflation proof, lifelong benefit that millions of Americans present for their future that they can count on. And we should not be talking about replacing this rock solid core of income security with a risky gamble.

There are four pillars to retirement security and only one that is guaranteed: Social Security. The other pillars are pensions and savings, continued earnings and health insurance. But less than half of working Americans have a pension plan where they work. Personal savings are at an all-time low. The fact is two-thirds of Americans aged 65 or over get at least half of their income from Social Security.

Lower wage earners and minorities depend even more heavily on Social Security for their retirement income. For one-third of the beneficiaries, especially older women, Social Security is nearly their entire income. And Social Security is the one that stands between them, life and poverty.

And when you consider the trends in private pensions and personal savings, we expect Social Security to be just as important for the boomers when they retire. And they expect to do so in the next decade.

We all know that Social Security faces a long-term financial problem. But by making some reasonable adjustments today, we won't have to make drastic changes tomorrow. The first thing we do to make clear is that Social Security is financially strong. The problem is not a crisis. The program is not in a crisis, either.

We need to remind people that even after 2042 when the trust fund is exhausted, Social Security can pay over 70 percent of current law benefits for decades. Once people understand this fact, they're much more open to opinions that will strengthen Social Security for the long-term.

However, it is true that the system needs long-term measures to be able to pay full benefits to boomers and future generations. Treating private account funds with money diverted from Social Security is the wrong way to deal with the projected shortfall decades from now. But there is a right way.

There are two examples that we can use. First, we can increase the wage base for Social Security contributions. Currently about 85 percent of the total wages nationwide are subject to Social Security payroll taxes. That figure was 90 percent for many years.

The maximum wage subject to Social Security payments in 2005 is about \$90,000. Raising that cap to again cover about 90 percent of wages to \$140,000 phased in over 10 years would lower Social Security's projected shortfall by 43 percent. This is fair because higher wage earners have recently benefited from substantial tax cuts and other subsidies for their investments and retirement accounts.

Second, we can diversify Social Security's trust fund investments to increase the likelihood of higher returns. Today the trust fund can only be invested in treasury bonds. The administrative costs and management fees of personal accounts would be devastating. Diversifying the investment in this way could lower the expected shortfall by 15 percent. And I'm talking about using the fund in a diversified account.

Taken together, these two reasonable steps would lower Social Security's shortfall by more than half. And that's just for starters. There are other steps we could take short of gambling with risky private accounts.

But we should remember that all the fancy statements that are made, that all that's gold does not glitter. There's a lot at stake in this today. The trillions of dollars it would cost to create a private account system may well lead to higher interest rates that will raise interest payments on all the federal debt. This would squeeze the federal budget even tighter. It would lead to higher taxes on everyone and cuts in the funding of the central federal programs besides Social Security such as Medicare and Medicaid.

I notice that my time is up, Mr. Chairman. But I'd like to just make one statement since James Roosevelt is here because we've used it throughout our programs at AARP. As a nation, it has always been recognized that a house divided against itself cannot stand. We should not allow Social Security to become a generational dividing one, pitting old age against young.

President Franklin Roosevelt said it best during a radio address on Social Security on his third anniversary. He said, “In our efforts to provide security for all, American people, let us not allow ourselves to be misled by those who advocate short-cuts to utopia or fantastic financial schemes.” With your help, we will strengthen Social Security and keep its promise now and for generations to come.

Mr. Chairman, thank you very much.

Sen. Dorgan: Mr. Holbrook, thank you very much.

Michael Tanner is the director of the Project on Social Security Choice at the CATO Institute. He also serves as a director of health and welfare studies at CATO. His writings have been published in the *Washington Post*, *Los Angeles Times*, the *Wall Street Journal*, *USA Today*. And he’s appeared on virtually every television program that is out there.

Mr. Tanner, we thank you very much for being here. We understand you have a different viewpoint. And I did indicate earlier that we have sought to have some help for you by inviting the administration. They chose not to be here today. But we appreciate your being here. And why don’t you proceed with your testimony?

Michael Tanner: Thank you, Mr. Chairman, Senators. I do consider it a privilege and an honor to be invited to be here today as a sacrificial lamb. But I do appreciate the opportunity to offer my views on the need for fundamental reform of the American Social Security system.

Let me say at the outset that I believe very strongly that Social Security reform should be a bipartisan issue. In many ways, Social Security is the creation of the Democratic Party. And more recently, many Democrats have been willing to speak out on the need for reforming and modernizing the program.

As long ago as 1998, then President Bill Clinton was warning Americans that, “Today Social Security is sound, but a demographic crisis”—interesting word—“looms if we fail to act. For over the next 30 years, 76 million baby boomers will retire. And by 2030, there’ll be twice as many elderly Americans as there are today. If we don’t act now, payroll contributions will only cover 75 percent of benefits.”

Others, including your former colleagues like Bob Kerrey, Charles Robb, John Breaux and, of course, the late Daniel Patrick Moynihan as well as Congressmen like Tim Penny and Charlie Stenholm not only recognize the urgent need for reform, but embrace the idea that reform could be an opportunity to build a newer and better Social Security system, that reform could give workers ownership and control over their retirement income while allowing workers, especially low and middle-income workers, to accumulate real, inheritable wealth, in short, individual accounts.

Now I know I've been invited here today specifically to discuss the impact of Social Security reform on the benefits to seniors; therefore, I will not dwell on the fact that workers today have no legally enforceable guarantee of any type of benefits under the current system, according to the Supreme Court of *Nestor v. Fleming*.

I won't discuss the increasingly poor rate of return that younger workers are receiving for their taxes or the way that Social Security penalizes working women, African Americans and others. What I will discuss is the impact on benefits on seniors. And I assume by this we're talking about future seniors since the president has made it clear that he will not support any Social Security reform proposal that reduces benefits for current seniors.

It is true, however, that Social Security reform will have an impact on the benefits of future retirees. That goes for any Social Security reform. And it's important that for any such discussion take place in the context of Social Security finances. That is because given Social Security's finances comparing any reformed Social Security system to currently promised benefits is to compare reality to a fantasy.

Given current revenues, promised benefits cannot be paid. I will say that again. Given current levels of revenue, the promised level of Social Security benefits in the future cannot be paid.

Now we can become forever embroiled in a semantic debate over whether this does or does not constitute a crisis. However, we cannot deny the fundamental facts. Social Security will begin to run a deficit in less than 15 years. That is, it will begin to spend more money on benefits than it is bringing in through taxes.

At that point, in order to continue to pay promised benefits, it will have to draw on the Social Security trust fund. Now I know opponents of reform have made much of the trust fund recently. I heard that here today. Suggestions that the trust fund guarantees Social Security solvency until 2042 or even 2052, according to some projections.

However, as former President Clinton's fiscal year 2000 budget stated — and I quote — “These trust fund balances are available to finance future benefit payments, but only in a bookkeeping sense. They do not consist of real economic assets that can be drawn down in the future to fund benefits. Instead, they are claims on the treasury that when redeemed will have to be financed by raising taxes, borrowing from the public or reducing benefits or other expenditures. The existence of trust fund balances, therefore, does not by itself have any impact on the government's ability to pay benefits.”

Quite simply, Social Security cannot pay the promised level of benefits with its current level of revenues. Therefore, it is improper to compare any reformed Social Security system with today's promised benefits.

Now we can go into more depth about what type of reforms there should be. I believe we are going to have to act to bring Social Security benefits in line with projected revenues. And I believe that the best way to do that, the fairest way to do that is to change the formula for determining Social Security benefits from a wage index formula to a price index formula.

But I also believe that essential to any reform of Social Security is the creation of individual accounts to allow younger workers to take advantage of the higher rates of return that can be provided from real capital investments, that these individual accounts will not be a magic bullet that will solve all of Social Security's problems and will allow younger workers to offset reductions in benefits that would otherwise occur simply as a result of Social Security finances, that by creating individual accounts, we can give workers ownership and control over their retirement benefits, allowing younger low-income workers to accumulate real, inheritable wealth. And we can preserve Social Security's finances without the type of devastating benefit cuts or payroll tax increases that would be necessary in their absence.

Thank you very much, and I do appreciate the opportunity to appear here today.

Sen. Dorgan: Mr. Tanner, thank you very much for being here.

And finally on this panel we will hear from Peter Orszag. He's the Joseph A. Pechman senior fellow in economic studies at the Brookings Institution. He's also co-director of the Tax Policy Center, a joint venture of the Urban Institute and also Brookings. He's the director of the retirement security project and a research professor at Georgetown University.

He has previously served as special assistant to the president for economic policy. He has a wide range of publications and has a distinguished academic background with a Ph.D. in economics from the London School of Economics.

Mr. Orszag, thank you very much for being with us. And you may proceed and may summarize.

Peter Orszag: Thank you very much, Senator. One would think that it would be very hard to come up with a Social Security plan that both dramatically reduces benefits and substantially increases debt. You think you'd have one or the other. But the administration's approach seems to have been able to come up with both. It's like a basketball team that's slow and can't jump.

And it's very important to realize that these two effects come directly from the constraints that the president is placing on reform options. His unwillingness to devote any additional revenue to strengthening Social Security necessitates excessive benefit reductions. And his insistence that part of the existing payroll tax be diverted into individual accounts implies a very substantial increase in debt.

Now there are lots of unanswered questions about what the plan is, but those two key features are inherent in his approach. Let's see how they play out with regard to the leading plan put forward by the president's commission to strengthen Social Security.

First, for young workers today, how big are those benefit reductions? I'll refer to a Congressional Budget Office analysis of model two, which was the leading plan put forward by the president's commission.

According to the Congressional Budget Office, even including the pay-outs from the individual accounts, young workers today — those born in the 1990s — would experience a \$9,000 reduction in annual benefits compared to what's promised under the current benefit formula. And even more startling, a \$3,600-a-year reduction compared to the reduced level of benefits that Social Security could pay after the trust fund is exhausted if we just simply reduce benefits to match incoming payroll revenue, an astonishing fact.

Social Security over time would wither on the vine under this plan. And I want to emphasize it's not just the retirees who would suffer. It's not just that the elderly would no longer be able to live with dignity.

Evidence — a recent paper by Gary Englehardt and John Gruber, for example, shows that one of the ways that Social Security benefits manifest themselves is by allowing widows and others to live independently. If you significantly reduce benefits, one of the effects will be that that ability will be routed. And much as I love my mother-in-law, I think it's much healthier for us if she doesn't live with us. So I just want to emphasize there are a lot of unintended consequences that come from scaling back Social Security benefits.

To today's young workers, I would say...

Audience member: This is being televised, you know?

Mr. Orszag: It's still early in California. To today's young workers, I would say not only that you will be experiencing that substantial reduction in benefits, but you will also have the honor of inheriting a very substantial increase in debt. Under this plan, the additional public debt would amount to \$2 trillion over the next 10 years, \$4.5 trillion over the subsequent decade. Debt would not fall below the baseline, what it would be in the absence of this plan, for 60 years. Imagine that.

That would be like we put this plan in, enacted it at the end of World War II, we actually stuck with it throughout the history since then with all of the very substantial benefit reductions. Only now would we be experiencing any net reduction in debt from it. The young will inherit that additional debt.

What are we getting for all of that benefit reduction and additional debt? I'd say not much. I'm all in favor of accounts. We already have them. They're called IRAs and 401(k)s. And as many people have mentioned, there's a lot that we can do to boost saving in those accounts.

Frankly, there is a growing body of evidence on what works to get people to save in 401(k)s and IRAs. It all has to do with making it easier. Families are busy. They have difficulty focusing on decisions like saving. If we make it easier for them to save, they will. The empirical evidence is very clear.

So my view is we should be focusing on making the accounts we already have work better rather than introducing accounts where they don't belong and where they would result in additional benefit reductions and very substantial increases in debt.

So in conclusion, I'll leave you with three principles for Social Security reform. First, very simply, do no harm. Don't drive up public debt in the name of saving Social Security and reducing debt. It makes no sense.

Secondly, preserve a strong foundation of retirement income that is protected against inflation, that lasts as long as you're alive and that doesn't fluctuate with the stock market. It's just sound financial planning. You want a base tier that's provided in that form. And there's lots that we can do to shore up the system to make sure that it can continue to provide a strong core tier.

And then finally, let's boost saving on top of Social Security. Social Security was never intended to be enough by itself. Under any of these reform plans, that will continue to be the case. It won't be enough by itself. All sides should agree that we need to boost saving in the accounts we already have. Let's just go and do that.

Thank you very much, Mr. Chairman.

Sen. Dorgan: Mr. Orszag, thank you very much for your testimony. We have been joined by my colleague, Senator Lautenberg, who had an engagement with some citizens from New Jersey this morning and was unable to be here at the start of the hearing. I've asked him to proceed to make a brief opening statement. And then I will begin to call on my colleagues. I will defer my questions for the moment. I'll call on my colleague, Senator Wyden, first and then in order of appearance.

But, Senator Lautenberg, thank you for joining us. Why don't you proceed?

Sen. Lautenberg: Well, thanks very much, Mr. Chairman. And first, I would ask consent that my full statement be included in the record.

Sen. Dorgan: Without objection.

Sen. Lautenberg: And some of the comments and views that I held have been reviewed already, so I don't want to be redundant. In particular, I want to focus on the attempts of the administration to mislead, to frighten the public at large into believing things that aren't really true or as critical as they make them out to be. They want to spread fear and spread it evenly across the country, I can tell you.

And I commend the two Social Security administration employees who are going to be testifying today. It takes a lot of courage to do that. And our country owes them a debt of gratitude. And

I'm proud to have been active, Mr. Chairman, in combating the administration's propaganda efforts, both on Social Security and on other issues as well.

And several members of this committee recently joined me in requesting an investigation by GAO into the Social Security Administration's illegal use of taxpayer money. Now next week, I and Senator Kennedy will be introducing legislation with other colleagues, including Chairman Dorgan here, to make clear once and for all that taxpayer dollars are not to be used for propaganda or grass roots lobbying campaigns.

Today we're going to hear how the administration has been using Social Security Administration resources to try to create the illusion of a doom and gloom crisis in Social Security. We do know that the White House plan is to sear into the public mind that Social Security is headed for disaster and action must be taken immediately. But we also know that the administration is using taxpayer resources to implement their lobbying strategy.

And one stark example is the current Social Security Administration statement which was sent to 140 million Americans each and every year. I think that — I hope it's going to be distributed because this would be a severe eye test.

The 140 million Americans — no other government message that has such a broad reach and impact is like that. We need to scrutinize it very carefully. The statement includes messages of doom designed to drum up support for the president's plan in Congress. And I do have a couple quotes from that statement.

One is that, "the Social Security system is facing serious future financial problems. Action is needed soon." It goes further. "Congress has made changes to the law in the past and can do so at any time."

Mr. Chairman, these messages serve no purpose other than to sear the idea of crisis into the public's mind so that people will be motivated to contact Congress to move the thing along. The purpose of a Social Security statement is to inform the public about what Social Security benefits they're scheduled to get, not to motivate them to organize in support of a legislative proposal. So President Bush cannot use the Social Security Administration as his personal lobby shop. And the entire administration must stop using taxpayer dollars for propaganda.

And, Mr. Chairman, I thank you for organizing this hearing today because our friends on the other side of the political aisle refuse to conduct the proper oversight into what's taking place right now. Thank you very much.

Sen. Dorgan: Senator Lautenberg, thank you very much.

Senator Wyden, you may inquire.

Sen. Wyden: Thank you, Mr. Chairman.

Let me begin with you, Mr. Orszag. A couple of hours ago, the Associated Press began running an article entitled, “Bush Advisers OK Social Security Plan.” So we now seem to be getting some kind of framework in terms of what we’re dealing with. And the article says, for example, that, “the administration is looking at something that they assert would somehow give more protection to people at the end of life.”

It looks to me like this is essentially just window dressing for private accounts. And the article goes on to say that the “advisers are talking about how much guaranteed benefits would be cut under their proposal,” and also how they would pay for the \$2 trillion needed to begin such an effort.

What can you tell us about — and obviously details are sketchy. But what can you tell us about how such a program would work and how it would offer, at least what they claim, some kind of new protection for workers?

Mr. Orszag: Senator, I did see that AP story. And I think this is one example of the sort of bait and switch going on. The president talks about ownership and control. When you look at the details of the plan, even the individual accounts are very constrained. They would, according to this report, be constrained to be held in a thrift savings plan kind of approach where effectively a government entity is choosing the investments on behalf of workers and there’s a restriction to a certain kind of diversified index fund.

So on the one hand, you have the rhetoric. On the other hand, you have the reality. What would that reality look like? The reality would look like to make that run well, you’d need a very significant increase in government bureaucracy, frankly, with government employees administering the fund.

There would likely be political pressure to undo it. Let’s think about, for example, an index fund is invested necessarily in tobacco firms, in firms that do all sorts of things that people might not like. You would be forcing people to invest part of their funds in firms that they may not agree with.

So over time, I think whatever the administration policy officials and others write down on paper in a theoretical way as to how this thing would work, the reality is that over time it would not work that way. You would wind up with people making more choices themselves. And then you’d have very high administrative costs and the potential for very bad decision making.

So there’s a tension here between what the president’s saying, the details of the plan as it’s evolving and then the reality as it would likely occur over time with backsliding against whatever people put down on paper.

Sen. Wyden: My understanding also from this article is that even at the outset they’re talking about a tier of investment that would essentially be a green light to Wall Street. And I think you

heard me say I've long been concerned about the idea of churning again and again and again. We've heard these statements that the administration wouldn't want to go that route.

But wouldn't this tier of investment that's still being kept open leave opportunities for real abuse?

Mr. Orszag: Senator, there are a lot of unanswered questions about this plan. And that's one of them. I'll give you just one other one. The plan assumes that — typically assumes that — people won't have access to the funds before retirement. And that is important if you're going to try to preserve the fund for retirement.

But if you sell these accounts on an ownership theme, it's your money, you know, you can do with it as you please, how are you going to tell that 35-year-old in 10 or 15 years the kid's sick, she needs a new car, she's got \$5,000 or \$10,000 sitting in the account — that she shouldn't pull it out and meet those immediate expenses? And maybe that makes sense. But then the money's not there for retirement.

There are a lot of unanswered questions about how these accounts would work. Just underscoring once again why they make no sense for the core tier of retirement income.

Sen. Wyden: Let me ask you one question with respect to how they would pay for this. Because apparently there aren't any details forthcoming here. Now I want to see an ownership, you know, society. It's certainly an attractive concept. I want young people to own something, though, beyond debt. And that's what I'm concerned about, that they're going to find in this.

Is this new proposal do anything with respect to answering the questions on financing the transition?

Mr. Orszag: Not to my knowledge. There's still the more than \$1 trillion, \$2 trillion, \$3 trillion question. And I want to emphasize the administration is trying to make it seem like this transition is only a decade. This is a deep, extended and expensive transition that lasts for decades, not just the first, the second, the third. As I mentioned, their own analysis shows that debt does not — you have an increase in debt for 60 years. So don't just focus on the first 10 years. This is a longer-term problem.

Sen. Wyden: Well, I think all of you have been very helpful. I will tell you I'm also very troubled about the idea of taking so much of the money out of the Social Security Program by allowing these private accounts at the very time when we need it the most, which is when these baby boomers are going to retire. I mean, it'd be one thing if you had that extra cushion. But certainly in the short-term we're going to very much need these dollars.

One last question, if I might. And that is even Mr. Tanner expressed, to his credit, some concern about what private accounts would accomplish in the long-term. And, you know, extra points for candor. But I wanted to wrap up by way of saying is there any scenario — perhaps I could ask this of Mr. Orszag and Mr. Apfel. Is there any scenario by which private accounts would be able to earn enough to help us fix a significant measure of the challenges facing Social Security?

Mr. Orszag: Honest proponents of individual accounts make it very clear that they have nothing to do with restoring solvency to Social Security. There are other objectives that people may be desiring for the accounts. But they really don't tackle the underlying solvency in Social Security. And, in fact, in the plan that the president's commission put forward, the accounts not only fail to help, they actually make solvency worse over any time horizon, including the eternity horizon that the president seems to favor.

Sen. Wyden: Mr. Apfel, just your last comments.

Mr. Apfel: Retirement security in the long-term, strengthening our retirement savings component for the long-term, I think, would be a very good thing, a very important thing. But if it's through the diversion of the current payroll taxes, that creates greater risk to the Social Security system. And it's not just about future generations. It's about current retirees as well. That destabilizes the system. I think that's dangerous.

Sen. Dorgan: Senator Feinstein?

Sen. Feinstein: Thank you very much, Mr. Chairman. I really have three questions. Let me begin with the first one, the British system. They have a system of privatization. And it has really fallen on hard times. I was wondering if — and let's go right down the line — if you would like to comment on that and what has happened.

Mr. Orszag: I would, indeed. We have an advanced economy that speaks English that has voluntary individual accounts just like the president has proposed. And it has been a mess. It has been a bloody mess, was the words — the title of a recent article on the problem.

What has happened? Rather than having low administrative costs, as some assert would occur with individual accounts, the administrative costs were so high that they would have eaten up more than 40 percent of the account balances until the government stepped in a regulated fees. So now the government is regulating fees in the United Kingdom because the fees were so high under the free-for-all private market approach.

Secondly ...

Sen. Feinstein: I was just going to say, if I understand it correctly, you have two ways of financing it. One is through the fee, the transaction costs of doing it in the private sector or doing it governmentally with either increased taxes — somewhere you've got to get the money to pay the transaction costs, it seems to me.

Mr. Orszag: And the way it's playing out in the United Kingdom is that just reduces people's retirement income. They wind up paying. But obviously the administrative costs have to come from somewhere. They're not free. And they've turned out to be very high in the United Kingdom. Again, the government had to step in and regulate fees.

If the president is talking about that kind of system here, let's hear about the details. Another unanswered question.

Secondly, firms in the United Kingdom that offer these accounts misled individuals — again, they're voluntary — misled individuals into opting for the accounts rather than one of the other options under their Social Security system. They have had to pay more than 10 billion pounds in compensation back to those people, nurses, school teachers, et cetera, who were misled into the accounts, illustrating another danger with voluntary, individual accounts.

The financial firms have one set of incentives. The well-being of citizens and others doesn't correspond to that. So the United Kingdom offers a lot of lessons. If the president proceeds with this kind of plan, which, again, I think makes no sense and about which there are a lot of unanswered questions, I would hope that at the very least, they take a very careful look at the United Kingdom because things have certainly not turned out there the way that proponents had hoped.

Sen. Feinstein: In fairness, Mr. Tanner, do you want to comment on the British?

Mr. Tanner: No, I actually would agree with much of that. The design of the program in the United Kingdom was abysmal. It was unnecessarily complex. It was designed, in many cases, around unique British systems that have a lot to do with their corporate pension structure. I will say in defense of the program it did have one positive aspect, which was to lower the unfunded liabilities of their pension system significantly.

They have now — I believe Britain along with the Netherlands is probably the only country in Europe that if you counted unfunded pension liabilities would be eligible for the Mathstract (ph) criteria. So they have significantly reduced the unfunded obligations of their pension system. But the system is unnecessarily complex, poorly designed. There was a great deal of fraud. It is not a model I would recommend in design of the U.S. system.

Sen. Feinstein: Thank you.

Mr. Apfel, you wanted to comment?

Mr. Apfel: I did. The U.S. system, our three-tiered system, Social Security, pension, savings, all three legs need strengthening. There's no doubt. But I think it's the strongest system in the world, absolutely the strongest system in the world.

We look at the U.K. It is true that their changes have reduced the long-term, quote, unquote, liabilities. That's come at reducing benefit adequacy. What's the cornerstone notion of government policy? It is economic security in retirement.

The problem with the U.K. system is the long-term benefit adequacy of their systems. You can reduce liabilities easily, bingo. But if it comes at long-term economic insecurity, then you've failed. And that system fails on that count.

Sen. Feinstein: Mr. Roosevelt, did you want to make a comment?

Mr. Roosevelt: Senator, just quickly. One of the things that my staff and I did in the office of retirement policy at the Social Security Administration was analyze the privatization plans of other countries to see if there was a model that worked. We didn't find one.

Ranging from countries that are not comparable, like Chile, where 50 percent of workers' income is in the underground economy, to countries, developed countries like the U.K. None of the other systems worked. We even looked at countries that are touted as successful. Within 10 years of retirement, a majority of retirees end up on welfare. They just — none of them work to accomplish what our Social Security system has successfully accomplished.

Sen. Feinstein: Thanks very much.

I thought Mr. Holbrook made a couple of very good points. And I wanted to ask the panel about it. And that was his two suggestions, the first that you increase the wage base for Social Security, contributions from the 85 percent.

He points out that for many years, the figure was 90 percent. And then he says if you go up to \$140,000, that would lower Social Security's projected shortfall by 43 percent. So just by doing that, you cut the shortfall by almost 50 percent. Does anyone want to comment on that? I thought it was very helpful.

Let's do Mr. Tanner first and then Mr. Orszag.

Mr. Tanner: Senator, I have a great deal of problem with that, especially in isolation of other — from overall reform of the system. To increase the wage base would be the largest tax increase in

American history. It would fall not just on the super-rich, but on upper middle-income professionals.

In exchange for that, you would gain surprisingly little in terms of solvency of the Social Security system. If you look at it on a cash flow basis, which is what I believe really counts, not on the actuarial basis that includes the trust fund, but in terms of the cash flow, you would only gain four to six years of additional solvency within the Social Security system in exchange for a tax increase that would be a job killer and severely lower economic growth in this country, in my opinion.

Sen. Feinstein: Mr. Orszag?

Mr. Orszag: Not too surprisingly, I have a somewhat different point of view. The last time Social Security reform was enacted in 1983 under the leadership of Tip O’Neill, Alan Greenspan, Ronald Reagan, only 10 percent of wages were above that maximum taxable base. And they are for untax. Now it’s 15 to 16 percent. That’s occurred because higher earners have enjoyed disproportionately rapid wage gain.

By the way, they’ve also enjoyed disproportionately rapid gains in life expectancy. So things are really good up at the top. And in my view, it makes sense to kind of take that back a little bit gradually by raising the cap over time so that we get back toward the historical norm. Only 6 percent of workers are at that — at or above that cap each year. And it would not impose an undue burden. Someone has to step up to the plate here.

Sen. Feinstein: Wait, let me make this clear. Six percent of workers are above what cap?

Mr. Orszag: The \$90,000 cap at which Social Security payroll taxes stop.

Sen. Feinstein: That’s interesting. So you affect essentially very few people?

Mr. Orszag: Only 6 percent of workers in a year. That’s correct.

Sen. Feinstein: Just out of curiosity...

Sen. Dorgan: Yes. We’re trying to stick to the five-minute rule. You have one additional question.

Sen. Feinstein: Well, I beg your pardon. I thought there wasn't a limit. May I just finish this?

Sen. Dorgan: Of course.

Sen. Feinstein: Thank you.

Please.

Mr. Orszag: I wasn't clear what the question was.

Sen. Feinstein: What percent of workers — you're saying only 6 percent of workers are above the \$143,000?

Mr. Orszag: No, are at — there's even fewer at \$140,000. Only 6 percent of workers are at the \$90,000 per year earnings level or above. Those are the only people who would be affected by an increase in that maximum. For 94 percent of workers in any year, there would be no change whatsoever. And so, you're talking about a very small share of the workforce that would be affected.

Sen. Feinstein: Thank you very much.

Sen. Dorgan: Senator Feinstein, thank you very much.

Senator Sarbanes?

Sen. Sarbanes: Thank you very much, Mr. Chairman.

Mr. Orszag, I first want to give you a chance to redeem yourself. You do love your mother-in-law very much, don't you?

Mr. Orszag: I said that. And I will continue to love her as long as she can live independently.

Sen. Sarbanes: The fact of the matter is and I think most likely — and I will cite my own mother for this — is she probably wants to live independently.

Mr. Orszag: Absolutely. We're agreed on that.

Sen. Sarbanes: And, in fact, you know, my mother did not want to go live with anyone of her three children. Although we'd have been happy to have her come. Because she had dignity and independence in her own living arrangements. And that's what she wanted to maintain. And Social Security has helped to make that possible for countless numbers of people across the country. And we need to keep that in mind.

Commissioner Apfel, you were a very distinguished commissioner of Social Security and ran the agency, I think, with a great sense of objectivity and fairness and a sense that the Social Security Administration was outside or above politics. And we appreciate that contribution on your part.

Let me take you through this question of what's being told to our young workers. The president is first of all telling them it's not going to be there for you. I mean, we hear that litany over and over again. That's the mantra. It's not going to be there for you.

So they become fearful and apprehensive. And then they're told you're paying in. You're not going to get it back out. Now as I understand it, if no changes were made in the Social Security system, they would still get 75 to 80 percent of their benefits. Is that correct?

Mr. Apfel: That is correct. And that's starting in about 40 or 50 years based on current projections.

Sen. Sarbanes: From now?

Mr. Apfel: And we don't — the way things are moving, that may be getting further and further away than we ... [inaudible]

Sen. Sarbanes: Well, Senator Dayton made an excellent point. Those projections are based on very conservative assumptions about the growth of the economy. And if you, in fact, extrapolate over the past 40 years and then the next 40, you get much better growth. That pushes the date further back on when the trust fund would be exhausted. And I would assume also would have an impact on the 75 to 80 percent pay-out.

The fact is, I think, Mr. Orszag, you said that even at that level, the retirees would be getting a better pay-out than they would be getting under the Bush proposal. Is that correct?

Mr. Orszag: That is correct, according to the Congressional Budget Office.

Sen. Sarbanes: All right now, Commissioner Apfel, let me take you through this another step. The other thing, I think, our young workers have to appreciate is the disability and the survivor benefits, the mention of the Social Security Program. It's 30 percent of the benefits. The comparisons are often made only on the retirement dimension as compared to the private sector. They say, "Well, if you took more risks, you'd get more return."

But these disability and survivor benefits, as I quoted earlier, you have — you know, you have a man who's married and he's got three children, two, four and six. And then tragically he dies. What happens to his family? Now as I understand it, under the current system, the Social Security will pay benefits to his wife and children until the youngest child reaches age 18. Is it 18?

Mr. Apfel: Right. Generally yes.

Sen. Sarbanes: And if they go to college, do they still get ...

Mr. Apfel: No.

Sen. Sarbanes: OK. Now if he becomes disabled, at whatever age that occurs, he may become disabled from work at a fairly young age but live a long time. The Social Security will cover him throughout that period, will it not?

Mr. Apfel: Throughout his life.

Sen. Sarbanes: Yes.

Mr. Apfel: And his family's.

Sen. Sarbanes: All right. The other point I want to make, again focusing on our young workers — and I'm quoting now from an article in the *New York Times* last Sunday, "Life Before Social Security." And it says, "Before the creation of Social Security, some Americans had private or state pensions. But most supported themselves into old age by working. The 1930 census, for example, found 58 percent of men over 65 still in the workforce, 58 percent."

"In contrast, by 2002, the figure was 18 percent. The elderly also relied heavily on their families. Children, friends and relatives have borne and still carry the major costs of supporting the aged, the Committee on Economic Security, the Roosevelt panel that developed Social Security,

reported in 1935. Several of the state surveys have disclosed that from 30 to 50 percent of the people over 65 years of age were being supported in this way.”

“So for young workers today, if the Social Security is weakened or eroded, they have to face the prospect that a burden is going to be shifted back onto them individually. The Depression swept this world away. Many of the elderly could no longer find work, and many who relied on their children saw them buckle under the strain. ‘I am in no position to do the right thing for my mother,’ one woman wrote to Roosevelt.”

So the dimensions of this for young people — first of all, it’s their own retirement, the basic retirement. Secondly, they have survivor coverage if something happens to the wage-earner and you have young children. They have disability coverage. And the system has helped to remove from them the burden of caring for their parents. None of this can be overlooked.

Now let me ask you this question. You talked about a price index. And you made the point that, in effect, what that is doing is raising the retirement age. Now presumably if we raise the retirement age high enough, there’d be no problem with funding the Social Security system. Is that correct? Is that right?

Suppose we made the retirement age 85.

Mr. Orszag: Bingo, no problem.

Sen. Sarbanes: No problem funding the Social Security system, right? Well, I make that point to emphasize that the perspective you have to bring to bear is when is it a reasonable retirement age and what benefits should the person get. The purpose of the exercise is not to avoid some difficulty in funding the system. The purpose of the exercise is to develop a retirement system that will adequately cover our seniors, a disability and a survivor system that will take care of our younger workers and to structure this arrangement in terms of an inter-generational sharing of responsibility.

One of the worst things that’s happening now by those pushing privatizing is that they’re trying to drive a wedge between younger workers and the older cohorts. But those older cohorts are their parents. And it’s them in the future and their relationship then to their own children. And we have to recognize that. And the Social Security system has done a marvelous job, I think, in bridging that gap.

Now, Mr. Chairman, I know my time is about ended, but I just want to make two final points, if I could. First of all, the point has been made, I think, very effectively by Mr. Holbrook, what you need to adjust the system is not large or huge in the total picture. As I understand it, taking the wage cap from \$90,000 to \$140,000, which would affect 6 percent of the wage-earners, would take care of almost half of the problem, the projected shortfall.

There are other things that can be done. My colleague, Senator Johnson, said, you know, if you pulled back some of these tax cuts — someone told me that if instead of eliminating the inheritance tax, which the president is proposing, that we could make adjustments in it, take the levels of exclusion up a little bit, hold onto the inheritance tax and that the inheritance tax alone — I'll ask Mr. Orszag. Would the inheritance tax alone be enough to work the system out?

Mr. Orszag: There are different variations. If you kept an inheritance tax only above \$7 million per couple, tax-free up to \$7 million and then above \$7 million apply the inheritance tax, you could save somewhere between a quarter and a half of the Social Security deficit, depending on which set of assumptions you use.

Sen. Sarbanes: OK. All right. My final point — I mean, but that only makes the point that, in effect, what you're doing is just recouping a reasonable amount of these excessive tax cuts would more than cover our Social Security — and that was what Bill Clinton was talking about. When Bill Clinton was talking, he was trying to head off major tax cuts because he said, "Well, we ought to adjust the Social Security system first before we go down the path of tax cuts."

Finally, Mr. Roosevelt, would you say that it is — would you agree that it is fair to say that as they use these TV ads, the proponents of privatization of Social Security showing President Roosevelt in their ads, that he must be turning over in his grave up there at Hyde Park?

Mr. Roosevelt: Senator, I have written a letter of protest to the group that is using those quotes, those clips in their ads. It is just a disgrace. And it's an insult to his memory.

Sen. Sarbanes: Yes.

And, Mr. Chairman, that's the final point. The American people have to think through this issue. Mr. Holbrook was absolutely right. This is a very important, fundamental issue. They must not allow themselves to be deceived or to be led down the path by false propaganda. This is one example of it.

I was just thinking when Mr. Orszag said, "It's the president's commission to strengthen Social Security." It's not to strengthen. It's not — they didn't label it the president's commission on Social Security. They sought to load the debate in the very name of the title. I think we ought to call them the president's commission to weaken Social Security.

But I don't insist on that. But let's at least have a neutral name for it. Thank you very much.

Sen. Dorgan: Senator Sarbanes, thank you.

Mr. Apfel, you wanted to make a comment?

Mr. Apfel: Senator, I just wanted to comment on your point about survivors' benefits and disability benefits because they are often overlooked. And we've also heard from the privatization proposals, don't worry, we'll fix that. I'm still waiting to see what the fixes are.

We need to be — one of the things that's important in this debate is to see specific proposals. Take a look what it does for individuals over time, survivors and disabled people, third of all, beneficiaries.

You know, when my wife was a young girl, her dad died, left her and her three sisters and her mom alone but with a Social Security check. The survivors' benefit is critical. Let's see what privatization does to survivors' benefits. Let's get some proposals, lay them on the table, talk about them, look what they do to people and then make a decision.

Sen. Dorgan: I have pushed just a bit on time here because we have another panel and we have people who have come from out of town to testify and I want to make sure that we get to that. That also is an important issue. So I appreciate my colleagues' indulgence on that.

Let me call on Senator Dayton.

Sen. Dayton: Thank you, Mr. Chairman.

Mr. Tanner, you referred to President Clinton's comment near the end of his second term to act now. I think the important context there was that the Social Security trust fund surpluses then were being retained. And what he proposed to be a lock box and the rest of the on-budget accounts (ph) of the federal government were in balance for the first time in 40 years and projected to remain so.

So if we — and if you take the surpluses in the Social Security trust fund as projected to generate between now and the year 2028 when the income for the first time exceeds the pay-outs, if you include the interest income, the surpluses generated from the beginning of President Bush's first term through that time would be about \$6.5 trillion — it's that corpus that President Clinton was suggesting himself, as I recall, go into a common security fund where all that could be invested in an index fund or some other mixture of stocks and bonds versus individual retirement accounts versus, as was proposed when I arrived here four years ago, paying down the national debt in near entirety so that we would be strengthening the overall situation of the federal government.

If in those contexts we were talking about individual retirement accounts, it seems to me we'd be in a much different situation than we are now where the \$151 billion that was generated in surplus in the trust fund this last fiscal year was spent entirely for other government programs and will be under any reasonable forecast for the foreseeable future so that the trust fund is essentially depleted every year. And when it does reach the point where expenditures exceed income, we're going to have no cushion to fall back on.

And I also believe, to put it into context — I hesitate to do this to Senator Moynihan by not recalling exactly correctly. And he's not here to respond. But I believe he was referring to the fact, just that very fact, that if the Social Security trust fund surpluses are going to be spent on current consumption, other government programs as they are, then in fairness to current workers, those dollars ought to be used for some other purpose.

And, in fact, this last year, the \$151 billion surplus in the Social Security trust fund, you could say, was an excess taxation of about one-fourth of the entire fund. But nobody's talking about reducing payroll taxes, as I think Senator Moynihan might have suggested, to even out the trust fund with revenues and expenditures. They're talking about using that money still for current consumption and then borrowing this \$2 trillion. And I believe one of your earlier reports said as much as \$10 trillion would be the transition costs going from a pay-as-you-go to a forward funded system.

So to me, this is not a matter of ideology as much as it is the financial realities of where we are now and where you or others propose we should go and whether requiring that kind of borrowing and the interest paid on that borrowing with the realistic assumptions on the performance of the capital markets, you know, our present worker is going to come out ahead and win. And to what extent is that possible and to what extent is that not likely?

Mr. Tanner: Well, Senator, I think you make some very valid points. And I was writing back when President Clinton was proposing this and when President Bush came in in 2000, that the surplus should be used for the transition to Social Security individual accounts.

I don't think you'll find an organization in town besides the CATO Institute that's taken a stronger stand against the over-spending of this administration and this Congress.

Sen. Dayton: I agree with you.

Mr. Tanner: That we believe that on all levels that the spending should be reduced and that we should be reducing the budget deficits that we are seeing.

That said, I would say that while having budget deficits makes it harder to make any Social Security reform or any transition to individual accounts, it makes it no less necessary. Because if we think it is tough now facing \$100 billion or \$200 billion in additional borrowing in order to make the transition, what are we going to face if we're still running \$450 billion or more deficits in the future and Social Security's liabilities come due?

If you have to redeem \$300 billion or so a year from that trust fund and you're running \$450 billion worth of deficits, that's really going to be tough.

Finally, I would just put the borrowing in one set of contexts. You have to look at both sides of the borrowing, both the long-term savings and the short-term borrowing. A useful analogy would be the credit card debt that we've all just run up over the Christmas holidays.

We could just make the minimum payments on those credit cards for the rest of our lives. It would be much more prudent, however, to pay them off today, even if that meant that we had to make a little extra effort to find the money to do so. By adding a little extra borrowing or a little extra expenditure cutting or even revenue to find money today to move to a system of individual accounts or to make whatever reforms we're going to make in Social Security, if we can save some of the \$12 trillion, \$11.9 trillion in unfunded Social Security liabilities that are out there, we are all much better off in the long run.

Sen. Dayton: But may I just say you're talking about reducing long-term liabilities by reducing future obligated benefit payments.

Mr. Tanner: Right.

Sen. Dayton: I mean, we could eliminate those if we reduce those now. It's just that becomes a numbers game.

Mr. Orszag, did you want to comment?

Mr. Orszag: Yes, I just want to say there's a huge non-sequitur going on here. People talk about the long-term gap in Social Security. And the 75-year number is \$3.7 trillion. If you go out to eternity, it is \$10 trillion, but most of that is occurring after 2078. So take whatever number you want.

That has nothing to do with the individual accounts. It's like people say that the individual accounts are helping you to solve that problem. They're not. So to say we have this big gap out there and we're going to borrow money for the individual accounts is a complete non-sequitur. The individual accounts are not helping you reduce that long-term debt. It is the price indexing and the benefit reductions that are doing that. And they have nothing to do with each other.

Sen. Dayton: My time is expired, unfortunately.

Thank you, Mr. Chairman.

Sen. Dorgan: Senator Lautenberg?

Sen. Lautenberg: I'll try to be brief, Mr. Chairman, because I want to ask a couple of questions about some of the assumptions that are being made about what kind of yields might occur.

And, Mr. Orszag, the plan as proposed would pump trillions of dollars into the marketplace, the stock market and so forth. What kind of an affect might that have on prices, on activities within the markets? It could very well be an extremely negative affect if prices started to decline and it was decided to change, to go back to something else, would it not?

Mr. Orszag: Well, one of the big concerns with something playing out, again, over six decades and you don't get any net reduction in debt for six decades is that lots of things can go wrong between now and then and there can be lots of backsliding. So that six decade reduction in debt is the best case scenario. That's when we actually stick with this program.

There are lots of things from stock market returns not turning out to be what people hoped to, you know, you name it that could go wrong between now and that date. So absolutely, the uncertainty surrounding how the world will actually turn out is something that we should be keeping an eye on.

Sen. Lautenberg: Yes, and one could easily see a day here when one of us or some member of the House stands up and says, "You know, these folks have been deceived by those scoundrels on Wall Street. And now these poor folks are going to be wandering the streets unable to take care of themselves. This government has an obligation." We'd be right back where we were. And we would have been through a terrible episode.

Ken Apfel, the assumptions for economic growth by this administration are around 1.8 percent. The growth in stock prices is something much more dramatic than that. How does that square?

Mr. Apfel: Well, the stock market has traditionally done better than the overall growth in the economy. And it's — when you start to look at the long-term Social Security estimates, these are — and any actuarial will tell you this. These are educated guesses. And they are — they can — we don't know what the world is going to look like in 2075 or 2080. Clearly, the estimates, the mid-term estimates are based upon relatively low growth because of the demographic changes that are taking place, fewer people in the workforce.

Is that too low? It might be too low. It might be somewhat higher. The Congressional Budget Office thought it might be. On the other hand, I would say that the longevity issues, the fertility issues, all of these things need to be kind of taken a look at in total to try to figure out what the long-term challenge is.

My own belief is that the estimates are about as good as we can do in terms of what the long-term demographic and economic challenge looks like. But I'd say the further out we get, the harder it is to estimate. Going with 75 years is hard to predict what the world is going to look like.

What the administration is talking about is not 75 years, not 100 years, but infinity, that what in infinity are these things going to look like. I'm not sure I know in the year 4000 what the fertility rate in the United States of America is going to be. So I would just argue that we need to be careful there about our ... [inaudible]

Sen. Lautenberg: We'll have to discuss that at another meeting.

But what I would like to say — Mr. Chairman, I'm going to wrap up. I am reassured, however, that until 2042, 2052 that the funds are going to be there to pay the Social Security beneficiaries. Thank you very much.

Sen. Dorgan: Senator Lautenberg, thank you very much.

This panel has, I think, been excellent. And let me, again, say that we did ask representatives of the administration to be present. They chose not to.

We have also invited Republican Senators to this hearing and also to any oversight hearing we conduct. We will welcome them. We don't shrink from debate on important issues. We welcome the debate. This is not about personal disagreements that are somehow rancid and partisan.

It's about big issues that are important to the future of this country, really big issues. And in the final analysis, those of us who serve in our political system and who spend a lot of time on weekends traveling in our districts, it's about people who come up to you at age 80 or 75 or 85 years old and tell you about their lives and tell you that their life would be a life with great poverty were it not for that Social Security check that gives them the opportunity to live with dignity and to be able to pay their bills.

And so, this is the first of many opportunities to have a big and aggressive debate about this issue. And your contribution to that debate is significant.

Now, Mr. Orszag, you should go to a phone and call your wife and explain to her what you've said about her mother. And we hope things go well.

Mr. Orszag: I love her very much.

Sen. Dorgan: We thank you for being here. And we will next call the second panel.

Mr. Apfel: Thank you, Mr. Chairman.

Mr. Orszag: Thank you very much.

Sen. Dorgan: Thank you very much.

The next panel that we will ask to come to the witness table is a panel that includes Debbie Frederickson from Minneapolis, Minnesota, Steve Kofahl from Everett, Washington and Danielle Brian, who is from Washington, D.C. and who is the executive director of the Project on Government Oversight. If we can have order in the room, thank you very much.

The two witnesses who are employees of the Social Security Administration are Debbie Frederickson from Minneapolis, Minnesota — she will describe her role — and Steve Kofahl, who is a Social Security claims representative in Everett, Washington. We welcome you here today.

And Danielle Brian, you have testified previously before an oversight committee. We appreciate your coming back.

Danielle Brian: Thank you very much for having me.

Sen. Dorgan: Let me ask if you could depart the room as quickly as possible and close the door so that we may continue.

Let me also explain that the presence of this panel is to deal with what many of us consider a very important issue. And that is newspaper stories recently that have described circumstances inside the Social Security Administration in which employees, that is, career employees, of this federal agency, have been enlisted to sell the proposition, basically, that Social Security, the Social Security system is in, quote, crisis, unquote, or that the Social Security system can be fixed by private accounts.

That is a substantial departure from that which is acceptable in normal cases, we expect and I believe the law would expect that these career employees in our federal agencies will not be the ones who are advocating policy. That is a part of the political debate and political discussion in the Congress.

They are to provide information to the Congress with which to make decisions. But I believe there are at least allegations out there that some substantial changes have occurred in the last two or three years. And we want to hear about them. Debbie Frederickson and Steve Kofahl have volunteered to come and speak to this from their perspective.

Debbie Frederickson, you are here from Minneapolis, Minnesota. You are an employee, I believe. You've worked for the Social Security Administration for 31 years. And we appreciate you being here. Why don't you proceed?

Debbie Frederickson: Thank you. Chairman Dorgan and members of the Democratic Policy

Committee, I respectfully submit this statement regarding the use of Social Security Administration resources to promote a political agenda that supports the privatization of Social Security.

I have worked for the Social Security Administration for 31 years. I began as a grade two clerical employee, was promoted to a data review technician calculating benefits and was subsequently promoted to a Title II claims representative in 1986. As a claims representative, I took applications for Social Security benefits, retirement, survivor, disability benefits. I processed medical and work continuing disability reviews as well as work reports and answered general inquiries from the public regarding rules and regulations and their relationship to the benefits that we administer.

The Minneapolis, Minnesota district office has approximately 75 employees and is the fifth largest field office in the country. I'm currently the executive vice president of the National Council of Social Security Field Operations Locals associated with the AFL-CIO which represents 28,000 Social Security employees in 1,300 field offices across the country and 36 tele-service centers, which are 800 number service. I have been a full-time union representative since late 1998. I've maintained direct, daily contact with our employees in the office and with the public that we serve.

In my current position and as an SSA employee who has served in the Minneapolis office for over 20 years, I'm in a unique position to hear employee concerns from both union and from non-union employees and have a broad understanding of the problems and challenges they face each and every day. For nearly all of my 31 years with the agency, career employees have not been asked to become involved in political issues. Over the years, through Republican administrations as well as Democratic administrations, there has been one constant: the work of Social Security Administration employees should not be politicized. Our job as Social Security employees is to serve the public, not to get involved in the politics.

In fact, we at the agency know that there are laws on the books that prohibit the use of Social Security Administration funds to advocate political positions or to lobby for or against legislative proposals. Unfortunately, over the last three years, there has been a significant shift in agency policy and practice on political activity. Today, as part of an agency-wide, top-down marketing and communications strategy, front-line agency employees are being instructed to provide the American public with information that is designed to promote the idea that Social Security is in crisis and that Social Security privatization is the answer.

This communications strategy, which was created by the agency's office of communications, provides detailed goals, processes and strategies for using SSA resources to promote privatization. Once adopted at SSA headquarters in Baltimore, the strategy was disseminated to all regions throughout the agency for implementation.

Each regional office has created its own pro-privatization marketing plan that is either identical to or closely follows the agency-wide strategy. Let me walk you through just one of these regional plans, the one that has been implemented by the Kansas City region, entitled "the Communications/Marketing Tactical Plan," over on the side here.

I obtained a copy of this marketing plan directly from the regional Social Security intranet site, our internal site, which serves as the central online information resource for Social Security employees in the region, and which all SSA employees are encouraged to consult for information on a wide range of issues, including how we should communicate with the public about the Social Security Program.

And if you look at the chart, in the red area is a link where we would go as an employee. I would come into the Kansas City site. I would click on that link, and it would bring me to the long-term challenges facing Social Security, which are talking points.

This chart shows the front page of the public affairs resources, as I said and gives you the direction as an employee, gives me my direction on where I'm going to go to get those talking points. Once I've gotten to the talking points, this chart shows the front page of the public affairs resources section of the intranet site for the Kansas City region.

You can see there are various links, including one to a document entitled — excuse me, I'm a little behind here. This chart shows the actual communications talking points. And in these talking points, the employees are — the talking points — I'm sorry. I'm a little nervous today.

The talking points are indicating the message that the agency employees are going to project to the public. And one of those points is that modernization must include individually controlled, voluntary personal retirement accounts to augment Social Security. This is an extremely important point that we object to because it does promote the Social Security's employees becoming political pawns, as you might say, in the process.

The next chart shows the actual — the tactical plan, the actual communications/marketing tactical plan for the Kansas City region. And if you look at this tactical plan — I'd like to just walk through it with you. In the first column, it talks about who the audience is that the employees are going to be talking to and projecting this message from these talking points that we talked about a minute ago.

And the audience for the administration is all audiences. That would include all of our employees as well as the public that we serve. And what is at stake in all of this? The administration indicates — and this is your first yellowed section — indicates that the ability of the Social Security Program to pay promised benefits to current and future beneficiaries.

And what is the message that the agency is projecting in the third column? The message is that we must address Social Security's long-term solvency issues now. They must be addressed at this time.

And the medium is for all SSA employees. And how are they going to do that? They're going to do that by having staff meetings, internal communications, IVT, which is interactive video training and net meetings, which are meetings that we conduct on the computer system for our employees.

And then they're also going to do this for all other audiences, which would be the public that we serve. And they're going to do that through speeches, seminars, public events, through radio and TV, newspaper ads and SSA publications. And there would be employer and special interest publications.

So what are the tactics that are going to be used? They are listed as distributing a pamphlet that we have entitled, "The Future of Social Security." They're going to use the long-term challenges talking points, which we talked about a minute ago. It was the statement that came up that I indicated was so egregious to us as employees. And they're going to discuss solvency issues at staff meetings. They're going to deliver messages using press releases and presentations at financial planning seminars and other outreach events.

The agency is going to look for non-traditional locations to educate people. And some of those non-traditional events would be such as farmers' market — looking for audiences at the farmers' market, looking for audiences at Big Bucks retail stores and places even like the Mall of America.

So in the message, they're going to also insert solvency message in Social Security publications as well as place articles on solvency in external publications. So when we're going through this plan as an employee, I'm also going to — as a manager, if I were a manager, I would be observing how the employees are using the message and how the — what the employee's knowledge of that message is.

And then as budget, the last column on the chart and the highlighted section is the budget that would have to come would be for materials and staff time. The tactical plan is what, as an employee, I can access, I can go into the system and access this and review it.

And again, the most egregious issue on this chart for an employee, for me as an employee with the agency, is that I'm using the long-term challenge talking points, which are circled in red on this chart because these are the talking points that indicate that, again, modernization must include individually controlled, voluntary personal retirement accounts to augment Social Security. That is a political message. And it's not my job as an agency employee, I don't believe, to project a political message. As an employee, my job is to maintain the integrity of the Social Security system.

I believe that the — in closing, I believe that the use of the Social Security resources to advocate political positions is wrong, and it compromises, again, the integrity and the credibility of the Social Security Administration. The credibility problem becomes even more acute when SSA employees are directed to make political statements that are either exaggerated or are untrue.

This undermines the Social Security mission to provide clear, accurate and objective information to the American people about the Social Security system. Thank you for giving me the opportunity to testify today.

Sen. Dorgan: Ms. Frederickson, thank you very much for being here.

Next we will hear from Steve Kofahl, who works for the Social Security Administration in the Seattle, Washington office.

Mr. Kofahl?

Steve Kofahl: Thank you, Chairman Dorgan and committee members.

Like Debbie Frederickson, I am also a 31-year employee of the Social Security Administration. And I have also held the position of claims representative throughout that period. I am also a union representative. I am the president of AFGE Local 3937. We represent employees in Idaho, Alaska, Oregon and Washington.

Thank you. And those employees work in field offices, tele-service centers that answer the 800 number, hearings and appeals offices and also the office of regional quality reviews. So they do the full range of Social Security public service work and auditing. I also have daily contact with employees, not only in my region, but elsewhere in the country through my other union work.

And in the testimony that Debbie Frederickson has provided, we've learned something about the plans that are out there for agency employees to use. We have seen a rather remarkable increase over the last three years in the promotion of privatization through these products, through other means, the Social Security personal earnings and benefit estimate statement that was shown during testimony from the earlier panel.

One of the things that struck me when I spoke to a taxi driver in August of 2003 when I identified myself as a Social Security employee was that his first comment to me after I identified my employer was it's not going to be there for me. And I asked him why do you say that Social Security won't be there for you. His answer was that he received that information in a publication from Social Security that was providing him information about his benefits that he might receive when he would retire in the future.

So obviously this message is getting through to the public through the Social Security Administration. We find that objectionable in itself. But even more objectionable is the use of our employees to deliver that message.

I spoke to one employee who not just once, but actually three times had been asked by his manager to deliver the message that Social Security is in crisis and that privatization is the best solution to that crisis. That employee actually refused to do so.

He told his manager I do not believe in that. I have been with the agency for a very long time. I've always delivered the message in a neutral manner. I've talked about the financial condition of the agency. But I'm not interested in promoting a political agenda. Fortunately for him, there were no retributions against him for taking that stand. And I think that was a very courageous thing for him to do.

Now the White House and the agency have both told us in response to recent publicity that career employees, in fact, are not being used to promote privatization and to deliver this message that is of a political nature. In reality, the plans that Ms. Frederickson told us about have been implemented and are being implemented throughout the agency.

The first item that I wanted to show you on the chart is from a public affairs site. We have regional public affairs sites on the intranet in the Social Security Administration for each of our 10 SSA regions. There is also a national intranet site.

But the regions publish activities to show what is being done in their jurisdiction to implement the plans that were talked about earlier. This first plan shows that a D.M., which is a district manager, and an S.R., a service representative, were guest speakers for 20 members of the Columbus Association of Insurance Women. They led a discussion on the various SSA programs administered by the Columbus office and provided BFRF, which is beneficiary and recipient data.

And the highlighted portion is what's most important. These individuals, the district manager and the service representative, career employees of the Social Security Administration, not political appointees, also discussed solvency and the future of Social Security using the long-term challenges talking points provided through the future of Social Security link found on the public affairs resource center Web site. As you'll recall, the long-term challenges talking points were presented earlier by Ms. Frederickson and they specifically called for privatization as a requirement for any reform of Social Security.

The next example is from a technical expert. A technical expert is a highly skilled technical person who takes claims and also reviews work for and trains other employees in a field office. The technical expert spoke to 54 employees of the U.S. Department of Agriculture, discussed WEPNGPO, which are two provisions regarding benefit payments, talked about insured status, which has to do with the requirements to receive benefits, about Medicare, about the future of SSA.

And this is important as well because we've heard from the administration that we aren't supposed to use the word privatization to describe privatization. We're supposed to call it something else. Here in a Social Security posting to an intranet site, privatization of Social Security is exactly what these two career employees — I'm sorry, this one career employee was talking about with this group of 54 others.

And finally, we have another example. This is for a PAS, P-A-S. That's a public affairs specialist. A public affairs specialist is an employee whose primary responsibility is speaking to the public and sharing information from the agency about the programs generally. But in this case, we believe the individual is being used for political purposes.

This public affairs specialist gave a two-hour lecture on the future of Social Security. That's quite a long talk. And I'll skip through some of the information in this, but focus on the end of it. That lecture covered the three options proposed by the White House Commission to Save Social Security. First of all, that's not the right name for that commission.

This seems to suggest that it really was a commission that was intended to save Social Security from something terrible that might happen. It discussed the three options, all of which called for privatization. Why was a career employee, again, being asked to present three political options involving privatization of the Social Security trust funds and programs rather than giving a neutral presentation for this two-hour lecture? We have serious concerns about that.

We feel these examples illustrate that the agency is aggressively implementing its plan to promote privatization and is using career federal employees to do so. Some of these employees are management officials, public affairs specialists and also people that deliver direct service to the public. All of these examples we've given are examples of career employees who are not supposed to be involved in political matters. And we feel that this is a gross misuse and waste of government funds and of government personnel.

If there's a crisis in Social Security, it's that we don't have enough people and we don't have enough funds to administer the program the way we would like to. Those precious funds should not be used for the purpose of promoting a political agenda. Thank you very much.

Sen. Dorgan: Mr. Kofahl, thank you very much. And I thank both of you for coming forward. What you have raised is a very, very serious issue and one that needs more investigation than the cursory treatment today. But your contribution to this discussion, I think, is very important.

Next and finally, we will hear from Danielle Brian who is the executive director of the Project on Government Oversight. She has served in that role since 1993. She has a substantial academic background and has accomplished a great deal in her career. She's testified previously before this committee.

Danielle, thank you very much. You may proceed.

Ms. Brian: Thank you very much for asking me to speak today. I'm here today not as an expert on the future of Social Security — I leave that to the economists — but as an advocate for good government. My organization's primary goal is to protect the operations of the federal government from being corrupted by powerful special interests.

One of the main ways that these powerful interests promote their agendas is through lobbying the public through advertising. We see it in full page ads extolling the virtues of weapons systems as well as through television spots defending companies who have been caught padding their pockets at the taxpayers' expense or even a political candidate running for office asking for your vote.

But when a reader or a TV viewer sees these ads, they can view them with a grain of salt seeing who is behind the ad and who's paid for them. When the federal government, however, uses the same methods of persuasion, it is taking advantage of the public's trust. And there is no more powerful special interest than the federal government itself.

Indeed, federal laws have recognized for years the need to prevent the government from betraying this public trust. The first law prohibits grassroots lobbying efforts with taxpayer funds to pressure Congress to support any legislation or appropriation by Congress. The second anti-lobbying law prohibits the use of federal funds for propaganda.

There's an important distinction between the executive branch informing the citizenry of government policies or defending its policies, which is permitted by law, and the illegal use of taxpayer funds to persuade the public to ask Congress to adopt the executive branch's political agenda, also known as grassroots lobbying. Simply stated, this is a case of illegal propaganda versus education.

Now in the past, this hasn't been a problem very often. Although in one case in 1982, my organization actually exposed one example, which turned out to be illegal, where the Pentagon was working with defense contractors to influence members of Congress on a conference committee regarding the C-5A cargo plane. This hearing concerns the Social Security Administration's use of appropriated taxpayer funds to lobby for President Bush's proposals to reform Social Security.

In the very recent past, we have seen three other high profile examples of the government crossing this line between educating and illegally lobbying the public. For example, the Department of Education recently paid commentator Armstrong Williams nearly \$250,000 to help promote the Bush administration's no child left behind law. This case will undoubtedly require Department of Justice and Government Accountability Office review.

Another example was the GAO's recent finding that the Office of National Drug Policy's pre-packaged news stories constituted covert propaganda in violation of the law. That's a quote of the GAO's finding. The third example recently was the GAO's findings that the Health and Human Services campaign to promote changes in Medicare during last year's prescription drug debate.

My testimony urges Congress to step in and draw a clear line between education and illegal propaganda. But I learned last night that Senator Lautenberg has already done that. And the legislation really sounds great that you've introduced, especially because you're including incentives and protections for whistle-blowers coming forward with examples of this kind of illegal activity as well as holding people personally accountable for their misconduct.

The two agencies that have until now investigated lobbying cases, the Department of Justice and the GAO, have both really been too lenient in their interpretation of the anti-lobbying laws because they don't have enough direction from Congress. The courts have held, however, that anti-lobbying violations occur when the message is likely to influence the public to contact Congress.

Indeed, the conduct is of particular concern when the publication — and this was Judge Sirica's finding, a well-respected judge — when the publication is authoritative in appearance. I can think of no document that better fits this description than the annual security mailing that Senator Lautenberg made reference to earlier.

In that case, the new Social Security statements, the urgent call for action along with references to Congress and Congress's capacity to change this law are highly unusual and come at a time when the Bush administration is aggressively pushing its Social Security reform. We believe this is a violation of the Section 1913 lobbying prohibition as well as the 503 propaganda prohibition. Additionally, as these Social Security whistle-blowers have testified, the communications plan is a clear attempt to engage in propagandizing, which would be a violation of Section 503.

In the end, I would like to note that what we're witnessing today, in addition to some of the worst practices in government, are some of the best as well. I am proud to sit at this table with two people who represent the fundamental strength of our government. Federal employees are the public's eyes and ears, letting us know how the government is spending our money. Fortunately we have people like these on our panel in our government looking out for us.

Thank you for your continued oversight in this committee. And I'd be happy to answer questions.

Sen. Dorgan: Ms. Brian, thank you very much. Excuse me.

Senator Sarbanes?

Sen. Sarbanes: Well, Mr. Chairman, I'll defer to Senator Lautenberg because he's taken the lead on this issue, not only with respect to Social Security, but with respect to similar practices across the government. And I think he's made really just some very highly significant and important contributions. And then I'll wait my turn and go afterwards.

Sen. Dorgan: Very well.

Senator Lautenberg?

Sen. Lautenberg: Thanks very much, Senator Sarbanes.

What we see here are glaring examples of violations of law by the federal government. And it's, I think, now finally that they're caught in the glare of the headlights, to use the expression. They want to agree that it's an inappropriate thing to do. And we're hearing statements now from the White House from the comptroller general of the Government Accountability Office.

And so, I'm encouraged by the response. But it's not enough to simply say we shouldn't do this anymore. What has to happen is there has to be a frank admission that this deceptive practice was intended to sell the public a bill of goods. And that's where we have to do.

So I am grateful to all three of you and particularly those who take your jobs seriously and who work to try to keep the public up to date on what their benefits are and how they develop their route for life. I thought Senator Sarbanes before made an eloquent statement about humanizing

this experience instead of simply having this become a hum-drum thing of who can outsmart the next in terms of are we in crisis, aren't we in crisis and using the ugliest of these fear tactics to try to get the political point across.

But in any event, I appreciate your being here. And you've been, I think, in your presentation very forthcoming in telling us what you see. Thirty years of service I think each one of you has. And you've not — let me not encourage you to say anything that you're not comfortable with. But what brought you to this point in time?

I think you described it adequately in terms of what the material is that you're being asked to disseminate and your rebellion against being asked to do these kinds of things. And how do you — and the feeling of the people with whom you work on a regular basis.

Do they — have they come to you and said, "Listen, this is something" — they're not here at the desk, but have they come to you and said, "Listen, this is something that I don't want to do. I feel that it's a dereliction of my responsibility. It's evading the duty we have to tell the truth and, as they say, nothing but the truth?"

Ms. Frederickson: The answer for me would be yes, employees have come to us. I believe Steve has spoken directly with some of them. I've received e-mail from employees who are clearly upset about the fact that they're being used for a political purpose. They know that their job is to ensure that benefits are paid correctly, that we process the workload correctly.

And one of the things that has happened in my career as a Social Security employee from the bottom of my career to the present day, most of that time in the agency has been — there's been a philosophy of nurturing the beneficiary, taking care of the beneficiary, doing the right thing by the beneficiary. And unfortunately that message is changing today with us becoming pawns in this political agenda and having to deliver a political message for the agency.

And the employees are clearly upset about that. So it's the reason we came forward today, or at least that I came forward today, is because I really think it's egregious that the agency is using our employees to deliver this message.

Sen. Lautenberg: Mr. Kofahl, what do you think?

Mr. Kofahl: Yes, I'd like to add to that, too. I feel very much the way Ms. Frederickson does about the whole situation. I think it's important to understand that our employees in particular believe in the program that they are charged with administering. We see every day people who come to us in a time of need when they've lost the wages of a worker due to retirement, disability or death.

People come to us regularly for help. They trust us. For many people, Social Security is really the face of government. We have almost 1,300 offices around the country. Most people come in

contact with us. We feel a sense of honor about what we do. And we know that they have trust in us. And we want to maintain that.

A lot of our employees feel that they're being made to feel a bit dirty because they're asked to do something different than they've ever done before. In my over 30 years with the agency, I've never seen anything like this before where we've been asked to actually take a stand on a political issue. And it makes it all the worse when so many of our employees disagree with the very message that they're intended to deliver to the public.

Sen. Lautenberg: Well, Ms. Brian, when the GAO rules that taxpayer funds have been misspent, what should the Justice Department do about it? You know, what we proposed, as you recall, with the contemplated legislation, is to say that if you do it, if you order it, you, the executive in that branch of service, directs it, you're going to pay. And not only that, you're going to pay any damages that can be established as well.

Ms. Brian: I think that's a tremendous provision in your legislation, to have people being held personally accountable. Of course, as we know, when there is fraud that occurs by the government, it's always sort of amorphous who was responsible for it. By your holding the senior person responsible, I think that's a great way to make sure that this doesn't happen again.

Sen. Lautenberg: Well, we saw when Medicare was being lobbied out there that there was some advertising that was judged to be falsely presented. And that was that they had actors that actually looking like they were newscasters and telling a story. Well, an actuary was asked to manipulate the figures to present a better picture.

Well, there was a ruling that was sent out that asked for a recovery of salary of \$80,000 because the actuary has been misrepresenting his responsibility. And the result is that HHS has refused to go after him to pay the \$80,000. So we want to put it into the law to make sure ... [inaudible]

I thank each one of you for your contribution and the courage that you have to speak up about it.

Sen. Dorgan: Senator Lautenberg, thank you very much.

Senator Sarbanes?

Sen. Sarbanes: Well, thank you very much, Mr. Chairman. And again, I want to thank and commend Senator Lautenberg for the really fine work he's been doing on this issue.

The national headquarters of the Social Security Administration is located in my state at Woodlawn just outside of Baltimore. And I've, of course, been on that campus many, many

times over the years. And I've also interacted with Social Security employees in many other venues, including their field offices here in Washington.

I have great respect for Social Security employees. I think they're very much committed to their mission. I think they understand and appreciate that the program they administer is essential to the security of the American citizens, not just the retired people, but working people who may be hit with a disability, young workers who for some tragic reason may pass away and we're left with the problem of how do we support their families and their young children.

And I think the Social Security employees that I've encountered — and I've encountered a fair number of them over the years — have a sense of that mission. But I think they've always understood that they're outside of or removed from politics, that politics ought not to come into play. Politics is done elsewhere and by other people, but not by career employees of the Social Security Administration.

And I am deeply concerned about this effort now to depart from this traditionally neutral role with respect to the Social Security career employees in policy debates in an effort to make them part of a highly politicized public relations campaign. It's so contrary, not only to what has been the practice, the precedent, but it's so contrary to essentially the integrity of government.

I mean, the government is not there to be used in any way possible by a particular political group to its advantage. I understand the temptation is there, but in the past, we've succeeded in forestalling that temptation. Although the work that Ms. Brian and her group do is very important in that regard. And as she points out, we're seeing these departures taking place all over the place.

I want to ask the two Social Security career people, Debbie Frederickson and Steve Kofahl, a question. First, I want to commend both of you for your fortitude in coming here today to testify. I know it's not an easy thing to do. And we always worry about retribution and so forth. But I think I'm fairly confident that won't happen. If it does, just pick up the phone and call Senator Dorgan or any of us here. And I think you've done a great service by coming here, a public service, coming here to testify.

One of your fellow employees at the Social Security Administration, Dana Duggins, was quoted in the *Los Angeles Times*. She said, "Those who are waging this publicity campaign have capitalized on our integrity with the American people." And I think that's a very important point. And I want to ask you, do you feel that? Are you in agreement with that, that over the years Social Security employees, I think, have built up a reputation for fairness and a reputation for integrity with the American public?

And this is an effort to capitalize on it. And, of course, one consequence of it would well be to erode the confidence which the American people have had in the fairness and the objectivity and the integrity of their Social Security Administration. Do you share those concerns, Mr. Kofahl and then Ms. Frederickson?

Mr. Kofahl: Yes, I certainly do. I think in my earlier response, I think, I made that clear. Our employees under the Social Security Act are required to administer the programs in an objective and fair manner. We handle a tremendous responsibility with making determinations about entitlement to benefits, the amount of benefit payments. And without our integrity, we would lose a great deal in the eyes of the public.

It's essential to our work that people trust us. And for us to send a message that many of us believe is not true and to be directed to do so, is really offensive to us. And we are concerned that it will erode the trust that the public has in us as employees and the agency and the programs that we administer, which are, again, very important to us as well.

Ms. Frederickson: May I comment?

Sen. Sarbanes: Certainly.

Ms. Frederickson: As an employee, when I am interviewing a claimant, they come into the office and they're filing for benefits, they are there at some of the most critical points in their life. And when they come to speak with us, they expect us as an employee to deliver a service to them, but to be compassionate and to take care of them and to give them an honest and truthful answer about the benefits that they're to receive, what their reporting responsibilities are.

But they also want to be able to trust in the fact that we're there to promote a message about the agency and give them what they need. And they want us to be truthful, straightforward. And they don't want to come into our office and hear a political message. That's not what they're there for.

They have full trust in us to do the right thing for them and to pay the right benefit to them. And when we promote a political agenda to them, I think that they receive a mixed message and they don't have the same trust in the integrity of the agency when we are out promoting a political message instead of promoting the message that we are there to promote. And that is to make sure that they are paid their benefit, the correct benefit, on time.

Sen. Sarbanes: Ms. Brian, did you want to add to this point?

BRIAN:

Yes. Well, we are deeply concerned about what really does appear to be sort of an erosion in the integrity of the federal government in the eyes of the public. I think this is extremely important. I think we're seeing, as I mentioned in my testimony, repeated instances recently

where this has taken place. And people are concerned about the public's growing lack of trust in government, you know, fewer people voting.

And these are the kinds of things that are going to make that that much worse. We need to put a stop to this kind of abuse. It's really, you know, fundamentally an abuse of power. The government is abusing its power to influence the public in a way that's just flatly wrong.

Sen. Sarbanes: Mr. Chairman, I would observe there's a propaganda effort on the way here that is, I think, unprecedented. I think there's no question about it. I understand that the annual statement of benefits now sent to all wage-earners is accompanied by a warning that says, "Unless action is taken soon, in just 14 years we will be paying more in benefits than we collect in taxes. Without changes by 2042, the Social Security trust fund will be exhausted."

Now if you parse that carefully, there's not a lie in that statement.

BRIAN:

Right.

Sen. Sarbanes: But the impression it will leave, particularly that the trust fund will be exhausted, most people think that that means that there'll be no money at all, that the program has come to a dead halt. Now as the testimony earlier today established, even at that point -- there's some argument about the date, but let's leave that to one side. Even at that point, there'll be enough money coming in to pay 75 to 80 percent of the benefits.

So there's a problem to address, but the problem is a manageable problem. The impression that's being given -- and certainly the president is working overtime at trying to give this impression. If you watch his sessions, this session that he held, this, sort of, so-called open meeting with a very carefully vetted and invited audience -- but if you watch that, it repeatedly was, "It won't be there for you. It'll be broke. It'll be insolvent," and so forth and so on.

So there's this effort -- now, you know, there's these business -- I want to warn people to be on the alert. You know, there was an organization, the Coalition for American Financial Security. Now we have another group, the Alliance for Worker Retirement Security. I just want to say when you hear these groups now that are formed, you'd better take whatever they have to tell you not only with a grain of salt, but with a very heavy -- I mean, it's all shaping up now.

And look, I understand normal politics. I am extremely disturbed that they would seek to use career employees in this effort. It's unfair to the employees who are placed in an extremely difficult and awkward situation. It threatens over time to erode actually the credibility of the Social Security Administration because, you know, a good number of the public will come to understand and perceive that people were being used in a propaganda effort.

I mean, Senator Lautenberg has addressed the situation in which one other government department gives a contract, pays -- it's happened in more than one department, as I understand - - pays a commentator in the media, which is supposedly independent commentary, to push their particular point of view on the public.

LAUTENBERG (?):

And he apologized for it, so it's the administration's direction that caused him to do it, he says.

Sen. Sarbanes: It's a complete abuse of how our process should work.

But we thank you very much for coming. I have great respect for your courage. I simply say to all Social Security employees across the country, I hope they will draw strength from your example and will resist these improper efforts that are underway to use them as a propaganda weapon.

Thank you very much.

Sen. Dorgan: Senator Sarbanes, thank you very much.

Senator Dayton?

DAYTON:

Thank you, Mr. Chairman.

I also want to thank all three of you for your appearance and especially the government employees. I recall that in the fall of 2002, prior to Congress's vote on the Iraq War resolution when Congress was being stampeded and the American public was being scared by the administration with certain assertions such as Saddam Hussein had weapons of mass destruction, that he was engaged in an act of nuclear weapons production. And I was myself shown by Dr. Rice and the White House an aluminum tube that I was told emphatically was for the sole purpose of nuclear weapons development.

After that vote on the war, which I voted against that resolution, but we were certainly given facts that would have supported it, it turned out that there were government officials, experts in the U.S. Department of Energy who disputed that view about the only possible use of those tubes whose voices were not heard by members of Congress, by the American people, which would have presented a very different picture. And maybe they were honest differences of opinion or interpretation of the facts.

But the fact that that information was suppressed and denied to Congress, denied the American people was a great travesty of justice. And I thank you for your courage in coming forward to give us the full benefit of all perspectives on this.

I also note, based on what Senator Sarbanes said, if there are now these notices going out in the Social Security checks, we also ought to include in the tax statements and everything else from the federal government a statement that currently in the non-Social Security on-budget account, revenues are now only two-thirds of expenditures. And if we were to apply that same principle, we would be looking at drastic curtailment there or tax increases, which this administration wants to avoid.

They're focusing on the one part of the Social Security — I'm sorry, the federal government's overall budget, Social Security, which right now generates a surplus, \$151 billion surplus last year, surplus this year, surpluses every year to 2018. And if you include the interest income on the bonds, then 2028.

This is in some ways a distraction from the real financial crisis that this administration has created with what the Concord Coalition, a non-profit fiscal watchdog headed by former Republican Senator Warren Rudman and businessman Warren Buffett have termed, "the most reckless fiscal policy in our nation's history." And it's that unsustainable deficit in the general operating account which is going to not only cause a crisis in the fiscal capacity of the federal government before 2018, but it's also going to impact Social Security from this point forward.

I guess with my remaining time, Mr. Chairman, if I could ask any of the three of you — and I'm sorry I had to miss your statement. I was out meeting with a couple of Minnesotans whom I had an appointment, a farmer and a nurse from Southern Minnesota who both said — they're both 50 years old — that their concern was Social Security was not going to be there for them when they retire. Without asking you to repeat the testimony that I didn't hear in my absence, is there anything else that you'd want to say based on the facts, the facts to those Minnesotans and to anyone else in America who you could help to clarify their situation for them?

Ms. Frederickson, a fellow Minnesotan?

Ms. Frederickson: Fellow Minnesotan, exactly.

Sen. Dayton: Thank you for being here.

Ms. Frederickson: The one thing I will say is that just to reiterate, as an employee of the agency, I really believe that our public — the public trust is in us as employees to do the right thing. And we should not be used to deliver a political message because it does degrade the trust of the employees and of the agency. It's not just the agency, because the public comes in and they don't look at our agency as necessarily — in their time of need, especially — as a government agency, as a government bureaucracy.

They come in and they look at me as an individual. And they say, "I want you to do the right thing for me. I want you to help me in what I need today." And they don't expect me to give them a political message. They expect me to do these things to get them what they need today.

Sen. Dayton: Thank you.

Mr. Kofahl?

Mr. Kofahl: Yes, I would hope that your constituents aren't too afraid. And I fear that their opinions about the future of Social Security may have been based in large part on information they received from the agency that is supposed to be administering that program, not proposing ways to change it. So I am disturbed that that message keeps coming through.

I hear it all the time, not just the taxi driver I talked about in my testimony, but many other people. When I tell them I work for Social Security, more often than not, they say, "Well, that's not going to be there for me." And there's no reason why people need to accept that idea. And there's certainly no reason why the Social Security Administration should be using its employees and its public information resources to send that message.

Sen. Dayton: Well, they're being told that. They believe it because they're being told it by the President of the United States. And people want to and should be able to believe their president, believe that he's factually correct. Thank you.

A final word, Ms. Brian?

Ms. Brian: I just wanted to add one point because, of course, my organization can't speak to the solvency for Social Security. But to add to what Senator Sarbanes was saying earlier, what you have is on the front page of the documents that we're all receiving is two references to an urgent need. There's a problem, action is needed soon. Action needs to be taken soon. And then on the second page of that document, a reference to the fact that Congress has made changes to the law in the past and can do so at any time.

That to us really does seem a fairly clear example of grass roots lobbying and is tremendously problematic. I mean, given that when you work, for example, on your tax forms, you get your 1040 together from the government, that's a similar kind of form for those of us who are getting, you know, papers from the government and you think what they're saying are just the facts. It doesn't say in there that the tax law is likely to change next year so don't count on these deductions now. This is an unusual statement. And that's what's growing great concern for us.

Sen. Dayton: Thank you, Mr. Chairman.

Sen. Dorgan: Senator Dayton, thank you very much. Let me, as I conclude, say a special thank you to my colleagues, some of whom had to leave early.

But Senator Sarbanes, thank you for playing such an important role in this.

I do want to say that the memorandum from the White House, Mr. Peter Winner that was disclosed about two weeks ago indicated that their task was to convince people that we are headed towards an iceberg. They want to convince people we're headed towards an iceberg. That's part of what we're talking about here with respect to what they're doing in a whole range of areas and the efforts inside the Social Security Administration to use career employees to do that is improper, probably illegal and certainly could have significant damage caused to a wonderful agency.

And I want to just make as a final comment, he said for the first time — this is again from the White House memorandum. For the first time in six decades, the Social Security battle is one that we can win. The implication of that statement is that we have tried for a long, long time to take apart Social Security.

In fact, as you know, the other political party, the Republican Party, did not support it when it was conceived. And some have never liked it. I quoted someone on the political right who this week said Social Security is the soft underbelly of the welfare state. Clearly, they are saying they don't like this program.

You know, let me just finally say this. I understand that holding hearings of this type is something that is controversial. What you have done today, Mr. Kofahl and Ms. Frederickson, is controversial as well.

And I hope and expect that it will not cause you problems back home in your job. But what you have done takes some courage. And I appreciate the fact that you have spoken out because there is something going on here that is wrong.

The Democratic Policy Committee, like the Republican Policy Committee, is a creature of law. The law that created it was passed in 1947. The first chairman of the policy committee was Lyndon Johnson.

The law that creates the two policy committees, Republican and Democrat, has discussions about witnesses and hearings. The implication clearly is that we should use these policy committees to hold appropriate hearings.

What I have said previously my colleagues have heard me say. We will not hold oversight hearings where the regular committees in Congress are doing their job holding oversight hearings. But where they don't do their job, we will hold oversight hearings. And we will hold a hearing in two and a half weeks on some contracting abuses where a substantial amount of waste, fraud and abuse exists. We've done that before. We will hold further hearings there.

But today's hearing is on a very big issue, two parts. One is the substance of Social Security and the debate. We don't shrink from that. We welcome that debate and will be aggressive in pursuing that debate. And the second is on an approach inside the Social Security Administration to use career employees for propaganda or for lobbying, which is clearly inappropriate and improper.

And so, we once again, as I indicated at the start of this, I think it's important to say, I have personally said to the Republicans you are invited to our hearing. This is not exclusive to us. And we will in every case invite those who might disagree with us, as we have today.

We will always invite the administration to give their point of view, as we did today. They chose not to come today. But we will always do that because we want these hearings to be a reflection of an aggressive and robust debate on things that matter and things that are important.

Having said all that, let me thank all of you for participating. This has been a lengthy hearing. But to my colleagues, a special thank you. And this hearing will be continued. The hearing is adjourned.