Testimony of the Honorable Alan Simpson
Before the
U.S. House of Representatives
Committee on Financial Services
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Mr. Chairman, and Mr. Ranking Member, thank you for this opportunity to testify before your Committee. I appreciate the Committee's attention to the issues of Social Security reform and financial literacy, and I hope that you will find my testimony to be useful.

I retired from the United States Senate a little over eight years ago, at the beginning of 1997. I had spent a lot of time working on reforming Social Security, and when I retired I was acutely conscious that a huge problem remained unsolved. Because Congress still has not acted to fix Social Security, you have a worse problem before you than the one I was wrestling with during my last term. And if you fail to act, future Congresses will face a more ghastly problem still.

I served on the Bipartisan Commission on Entitlements and Tax Policy that was convened by President Clinton, and co-chaired by Senators Bob Kerrey and John Danforth. And when I say "bipartisan," it truly was that. Our two co-chairs, Senators Kerrey and Danforth, worked as closely together across the aisle as any two members of the same political party. They did this because they shared a common concern for the future of the federal government and for the nation.

Our Commission put together a chart that was aptly titled, "Current Trends are Not Sustainable." It showed how, left to their own devices, federal entitlement programs would eventually swallow up the entirety of the federal budget. And just in case anyone doesn't understand which programs I'm talking about, let me name the two biggest: Social Security and Medicare. Those two programs cannot continue indefinitely as they are now structured. Something within them has to give.

Since the Entitlement Commission report, much has changed, yet in a larger sense, nothing has changed. We've gone from a Democratic President to a Republican President. We've gone from Democratic control of Congress to Republican control of Congress. And if we were to make the same chart today, the numbers would change, the dates would change, but the basic picture hasn't changed at all. Unless something fundamental is done to rein in the growth of Social Security and Medicare, entitlement programs will ultimately require all of our citizens' tax dollars to operate, without so much as a penny left over for anything Congress might need to appropriate.

Serving on the Entitlement Commission was a most interesting experience. I learned a lot from it. One thing I learned is that if you are going to wait for the interest groups that lobby on these programs, and work their members into a froth, to honestly step forward with constructive solutions, you are going to have one long wait! We had them all in before the entitlement Commission – not just the AARP, but other seniors' groups, and labor groups.

And we showed them the charts. We showed them how costs were going to skyrocket in these programs when the Baby Boomers hit the retirement rolls, and how their kids and grandkids were going to be left holding the sack. And we got the same old song and dance that Congress is getting now. Polite comments about how we should act to keep these programs strong and stable, but unflinching opposition to any proposal that would actually deal with the problem. Today, that has not changed one iota. When you resolve to do something, you're going to have to filter out a lot of the noise and hysteria from groups who don't want anything done – anything, that is, except huge tax increases on the next generation, when "they" – "we" – "me!" – have exited the scene.

It's worth remembering that the Entitlement Commission was meeting just one decade after the 1983 Social Security rescue led by the Greenspan Commission. Despite that action, already, ten years later, it was so very clear that we still had a serious problem. The 1983 act was a great example of bipartisanship, but it didn't fix the fundamental Social Security problem, which is a program where the costs are programmed to grow faster than the tax base.

In fact, well before the Entitlement Commission, my old friend and late colleague Daniel Patrick Moynihan was calling attention to the fact that the 1983 fix was not going to hold. He pointed out that all those surplus payroll taxes we were collecting were being spent as fast as they were collected, and that the assets in the "Social Security Trust Fund" were nothing more than a bunch of IOUs the government was writing to itself as it was spending the money. He proposed that we simply cut the payroll tax outright. That wouldn't fix the problem, but it would at least do away with the fiction of building up a big Trust Fund that would supposedly carry us through the difficult years to come.

Later on, Senator Moynihan modified his proposal, coming back with a new version in which we would cut the payroll tax, and allow workers to direct the tax reduction, if they wanted, into a personal account. That way, at least some of their Social Security contributions would be saved, something that the federal government has never done, and never will do. But I digress and am getting ahead of myself.

After the Entitlement Commission disbanded, I teamed up with Senator Kerrey to introduce a series of bills that were designed to bring Social Security back into long-term balance. This legislation was based on plans that we had each separately put before the Entitlement Commission.

The basic logic of these proposals wasn't hard to follow. They were based on the reality that Social Security cannot possibly pay all of the benefits that are now being promised. To do so would require future tax rates to be astronomically higher than they are today. In the 2005 Trustees' report, the Trustees projected a need for payroll tax rates of greater than 18 percent, for Social Security alone, by the time today's newborns are in retirement. This is similar to the projections that so alarmed Senator Kerrey and myself.

The full Social Security payroll tax of 12.4%, is already a serious drag on employment and job creation. We cannot afford to keep raising it forever. And it would be absurd to do so, given that it can be easily avoided with some common sense reforms.

Consider this: *the highest wage earners, the very top of the income scale, are being promised benefits under the current system, in 2050, that are 40% higher than the highest wage earners receive today*. And that's *after* adjusting for inflation. Can someone explain to me why we should force future generations to pay stratospheric tax rates so that we can parcel out higher and higher Social Security benefits? That is exactly what the current system will do if we don't change it.

At some point, common sense will surely prevail, and the rate of benefit growth will be brought down to a sustainable level. And the right time to do that is now. The sooner we put that change in place, the more gradual it can be, and the more fair to the retirees of the future.

Bringing benefit promises back to a sensible rate of growth will still allow benefits to rise at a pretty good clip, but it will be considerably less than the current system is promising. That's where the personal accounts come in. By giving workers the chance to invest in a personal account, we enable them to use the proceeds from long-term investment and to get some of that money back. Not all of those promised, necessarily, but surely a heck of a lot more than the current system will be able to pay them.

Senator Kerrey and I put forward our legislation, which would have made the tough choices to bring the system back into financial balance, and to set up personal accounts within the system. Our logic was very simple: be realistic about what the current program can pay, and set up the accounts to allow workers to do better if they can.

Now, someone will ask me whether it is possible to fix Social Security without the personal accounts, and the answer is yes, of course it is, but it's not clear to me why one might want to. If you take the personal accounts out of the equation, then you do two things: you lower the benefits that the system will be able to pay, and you also continue the wasteful situation in which all surplus Social Security money continues to be spent. If you want to make sure that any of this money is saved, the only way to do it is to put it in personal accounts, because the federal government will otherwise spend every penny of it. That is a "given."

I grow more than a little weary of the blame game in Washington as to whose fault it is that we have deficits, and shouldn't we just have a "lockbox" to save Social Security, and then all will be well. I served in the Senate since well before the 1983 Social Security amendments. Social Security started running big surpluses in 1983. As I say, we've had Democratic Presidents and Republican Presidents, Democratic Congresses and Republican Congresses. It doesn't matter. The Social Security system that we now have does not save money. Period! It never will! It ain't built that way!

So in 2017, when the system starts running short of funds, the Social Security Trust Fund will go into "deep drawdown" – meaning that the federal government will have to scramble to find money to fill in the growing gap between the system's promises and its revenues, i.e., pick up and pay off all those I.O.U's!

I always chuckle my bald head off when I hear people say that putting money in personal accounts would "take money out of the Trust Fund." I can promise you, there's no money there now. The only way to generate any funding for tomorrow's benefits is to start putting some of that money aside in personal accounts.

I've been asked to give my views about the federal employee thrift savings plan. As a Senator, I had a whole staff of employees –and me -- who were happy participants in the program. We were each able to put money into a long-term savings account, get the benefits of long-term investing, all with essentially negligible administrative costs. You don't have to be a financial genius to save a lot of money through the Thrift Savings Plan. Why we in the federal government should have access to such a terrific means of saving, but the rest of Americans should not, is another mystery to me.

Finally, let me reiterate how important I believe it is that both parties come together to do something to fix Social Security. The latest Social Security Trustees' report put the date of its first cash deficits at 2017 – just 12 years from now. We are running out of time to switch course. The main thing that has happened since I retired is that a lot of time has passed, and we have lost the very valuable time that we could have used to invest in the program's future.

And every year that we wait locks in more of the program's built-in cost explosion. You and I all know that no sane Congress is going to touch the benefits of people now in retirement. So if we acted this year, no changes in cost growth could take effect until some years from now. If we wait a few years to act, then we'll have to make the same assurances then, and postpone changes still further. With every year of built-in cost growth that slips by, we sentence our grandkids to higher and higher tax rates.

When I was in the Senate, I was proud to work with Senators like Bob Kerrey, Chuck Robb, and Pat Moynihan on legislation to deal with Social Security. The same facts confront Democrats and Republicans alike. A pay-as-you-go system is not going to hold up under the pressures of the demographics of the 21st century. We need forward-thinking legislators to put aside partisanship and to ignore the babbling and groaning and clamoring of the seniors' groups – whose members aren't affected one whit by any of the changes that desperately need to be made -- and to chart a better and responsible course.

Thank you again for this opportunity to testify.