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NATIONAL COMMITTEE TO PRESERVE SOCIAL SECURITY AND MEDICARE
BEFORE
THE COMMITTEE ON FINANCIAL SERVICES
HEARING ON GENERATIONS WORKING TOGETHER: FINANCIAL LITERACY AND SOCIAL SECURITY
APRIL 20, 2005

Chairman Oxley, Ranking Member Frank, and Members of the Committee:

On behalf of the 4 million members and supporters of the National Committee to Preserve Social Security and Medicare, I am delighted to be here today to discuss Social Security and financial literacy. The National Committee strongly endorses improved financial literacy especially when it comes to planning and saving for retirement. We believe, however, that the way to a secure retirement is to strengthen Social Security for all Americans, not to dismantle it.

The members of the National Committee understand better than anyone the importance of Social Security. Every day, over 47 million Americans – one out of four households – experience the success of Social Security firsthand. Social Security is the single largest source of retirement income in the U.S., and each year it keeps 12 million seniors out of poverty. Social Security, unlike virtually any other financial instrument, provides a sound, basic income that is adjusted for inflation and that lasts as long as you live.

Older Americans want to see Social Security strengthened not only for themselves, but for their children and grandchildren. That is because a lifetime of experience has taught seniors about the many challenges that face them in attaining a secure retirement. They are familiar with the financial hurdles involved in raising a family, educating children, and buying a home. They understand that, during one's working years, setting aside savings takes discipline and sacrifice even for middle-class Americans. More importantly, they have learned that life is not always predictable.

Improving financial literacy is an important national goal. However, financial knowledge rarely protects an individual from all of the "hazards and vicissitudes" of life. Despite our best planning, life gives us "lemons" – and they are often financial. Just ask the people who counted on a pension from Enron. Ask the people whose retirement came just as the stock market was dropping in the late 1990s. They saw the S&P 500 index lose 38 percent of its value from 1999 through 2002 while individual stocks dropped even more. These individuals understand better than most people that no amount of planning can protect one from the financial risks and unforeseen circumstances they may encounter.

To make my point, let me share with you the story of Mary Vogel. Her situation is not uncommon. Mary, who is 76 years old and unmarried, worked for 35 years for a major airline. She retired as a ticket agent around the time the company was about to be bought out, and she thought she was well-prepared for retirement. The airline, however, eventually went bankrupt and continues in bankruptcy today. In January 2005, her life insurance was cancelled. In addition, her health policy was converted to a plan with more restrictions and more out-of-pocket costs. She is worried that her retirement benefits may be cut as well. Mary Vogel told the National Committee, "I worked my entire life and I believe that I have been prudent . . . but Social Security is my Security with a big S." The vast majority of Americans feel the way that Mary does. They want the foundation of their retirement income to be more secure, not more risky.

Unfortunately, privatizing Social Security would not only increase retirement risk, it would cut Social Security benefits, increase federal borrowing and further weaken Social Security's financial status.

No matter what you believe about the financial status of the current system, you need to keep in mind that private accounts make the situation worse. The President himself has said that private accounts don't improve solvency one thin dime. What many people don't realize is that, by diverting payroll taxes out of Social Security, the accounts actually accelerate insolvency. This means that everything has to be bigger – benefits cuts have to be deeper and borrowing has to be larger.

The Center on Budget and Policy Priorities has calculated that private accounts will cost nearly $5 trillion in additional federal borrowing in the first 20 years of full implementation. In the current fiscal climate, $5 trillion hardly seems like a reasonable expenditure. Some proponents of privatization describe this trillions-of-dollars in additional borrowing as nothing more than pre-paying the mortgage. What they forget is what happens to you when you pre-pay your mortgage by borrowing money – you end up paying a whole lot more by the time you are done.

The costs will fall on every American taxpayer for generations to come. Some call this borrowing the "transition" costs. However, using the term "transition" costs implies that these costs will last for a short time and be gone. In fact, my twin 3-year-old granddaughters will still be paying off this debt when they reach middle age.

Privatization will impose huge benefit cuts, and, ultimately, Social Security benefits will disappear entirely. The Congressional Research Service recently calculated that private accounts, coupled with the benefit-cut plan that President Bush has described as a "good blueprint", would reduce Social Security benefits dramatically. CRS reported that today's 41-year-old would experience a cut in benefits of about 30 percent. A child born this year with lifetime earnings of about $35,000 a year (in 2004 dollars) would face a 91 percent cut in benefits. If that same child earned $56,000 a year or more, he or she would have his or her Social Security benefit reduced to zero.

Here is where financial risk and financial literacy come into play. By design, privatization replaces the sound, basic Social Security benefit that lasts as long as you live with a retirement income based on market risk – an income dependent on your financial intelligence and your personal luck. Remember Mary Vogel. She was prudent, but she wasn't entirely lucky. She worked in an industry whose fortunes changed, putting her retirement income in jeopardy. How much can one prudent individual be expected to predict about the future?

Senior citizens know that the inability to predict the future is why Social Security exists. It is there so that every person is not a "risk pool of one". That is why older Americans want to strengthen Social Security for their children and grandchildren. I have seen this passion to protect Social Security at every town hall meeting in which I have participated. Senior's opposition to privatization is not dissipating – in fact, it's growing stronger.

As for young people, the more they learn about privatization, the more they dislike it. They realize that private accounts are not really voluntary – even people who decide not to participate in an account will have their benefits cut dramatically. They learn that those who choose a private account will be subjected to a "retirement tax" that takes back 70 percent or more of the account by reducing their Social Security benefits. They discover that individuals will not be able to leave their full account to their heirs because they will be required to purchase a basic annuity with the account proceeds, reducing the amount available to pass on to their heirs.

Ultimately, privatization will cut Social Security benefits, increase federal borrowing, and weaken Social Security. While it is always prudent to encourage financial literacy and enhance savings for retirement, no amount of planning can adequately protect all Americans from the unforeseen financial hazards of life the way Social Security does. To replace Social Security with a privatized system would put the retirement security of millions of Americans of all ages at risk