Statement of Hans Riemer
Washington Director, Rock the Vote

Before the Committee on Financial Services hearing on
"Generations Working Together: Financial Literacy and Social Security"
April 20, 2005

Chairman Oxley, Ranking Member Frank, members of the Committee, on behalf of Rock the Vote's one million members and supporters, thank you for the opportunity to present our views today about the future of Social Security.

My name is Hans Riemer, and I am the Washington Director for Rock the Vote, the nonprofit organization that promotes political participation and builds political power for young people. In the 2004 election, Rock the Vote registered over 1.4 million voters in a successful bid to increase the youth vote—which skyrocketed on Election Day thanks to the energy and enthusiasm of millions of young people across the country. Thank you for what you did to help make that possible—political leaders from all sides were a big part of it.

Rock the Vote's work does not end on Election Day. We are building on our momentum to educate young people across the country about how major policy issues affect them while empowering them to have a forceful voice in the decision making process. There are few issues more powerful than Social Security, the very foundation of our country's safety net. Without Social Security, more than half of all retirees—our parents and grandparents—would live in poverty.

As an advocate for our one million members and supporters, Rock the Vote believes that all Americans can learn how to invest for their own future. At the same time, we also believe that everyone should have a basic safeguard to protect them if they are unsuccessful with their personal investments. That safeguard, which is Social Security, should be sufficient to protect a middle class standard of living while at the same time lifting low income workers out of poverty.

We make it a point to emphasize with young people that if you want a decent quality of life when you are older, then you must invest on your own by fully participating in pension, 401(k), and IRA type plans. Social Security will be a floor or a basic protection, but it is not intended to provide your entire retirement income. You must save for your entire working life, beginning at the youngest possible age.

There is a world of difference, however, between the message, "Don't count on Social Security to be your *only* income" and, "Don't count on Social Security *at all*." Many young people have come to believe that they should not count on Social Security for any income. It is no mystery why they would think that, considering the constant media reports about Social Security's impending "bankruptcy," which strongly implies that there will be no money for future benefits and the Social Security Administration will have to close its doors. Many advocates of privatization have also fostered this impression; consider the remarks of President Bush, who recently said, "Without changes this young generation of workers will see a UFO before they see a Social Security check," according to the Akron *Beacon Journal* (April 16, 2005).

In fact, Social Security is not going anywhere. Since current workers pay the benefits for current recipients, the only way that the program would disappear is if there were no workers paying into it. Clearly that is never going to happen. While there is indeed a decline in the number of workers paying into the fund relative to beneficiaries, there are still more than enough workers to make ends meet.

If the goal of promoting financial literacy is to empower people to understand their personal financial situation and take action to improve it, a good starting point would be clearing up this unfortunate misunderstanding about whether Social Security is going to disappear or not. It's *a lot* of money we're talking about. According to the Center for Economic and Policy Research, an average income 21-year old is promised nearly $24,000 per year in retirement benefits from Social Security. After 20 years, that's $480,000 (in today's dollars).

The shocking news is that even without changes, Social Security will be 100% funded for the next 40-50 years, and then 70-80% funded after that (depending on whether you believe the Social Security Administration or the Congressional Budget Office). For the entire lifetime of a typical young adult, Social Security has enough money to pay 70-80% of his or her benefits. That's not perfect, but it's a lot better than "bankrupt."

In fact, our so-called "bankrupt" Social Security program can provide, with no changes at all, benefits to future generations that are *larger* than people are receiving today (including adjustments for inflation). Since Social Security benefits increase annually for every new "graduating class" of recipients who reach retirement age, the benefits that are promised to retirees in 2040-2050 are much larger than those received today—and these benefits would still be larger even if they were cut back to just what the current taxes can support. I wish my 401(k) could be bankrupt like that.

So why are we hearing so much about a potential crisis with Social Security? Why are we hearing that dramatic changes are needed to avert bankruptcy? In our view, these statements are designed to stampede young people into supporting proposals that they would reject if presented a full accounting of the facts.

A February 2005 survey of 18-39 year olds conducted by Rock the Vote and AARP sheds some light on this question. Our conclusion from the research was that "the more young people learn about private accounts, the less they like them." Here are two examples from the survey:

- ✓ 63 percent would oppose private accounts if it meant "massive new federal debt in order to pay current benefits." According to the Center on Budget and Policy Priorities, the Administration's Social Security plan is likely to require nearly $5 trillion in new borrowing over the next 20 years.

- ✓ 70 percent would oppose private accounts if it meant "cuts to your guaranteed benefits would be so severe that you could not make up the difference with money from your private account." Many plans include a benefit cut (often called the switch to price indexing of benefits) that is so large it will produce a net loss of income on average, with a massive loss for people whose investments do not work out. Consider the plan introduced by Senator

Lindsey Graham, for example, as analyzed by the Center on Budget and Policy Priorities (02/03/05):

> Under the plan, the retirement benefits for typical wage earners who are 25 to 35 today — including the monthly income from their private accounts — would be 27 percent or $4,900 lower (in today's dollars) than what they would receive under the current benefit structure. (These figures are based on the Congressional Budget Office's methodology for estimating the gains from private accounts.) This benefit cut is larger than the cut that would be needed if no action were taken to shore up Social Security's finances.

Other recent polls have also demonstrated a rapid erosion of support among young people for private accounts. The Pew Research Center survey released in late March, for example, finds that "people under age 30 who have heard a lot about the proposal are more than twice as likely as their less engaged peers to oppose the idea."

If proponents of privatization want to argue their case on the merits of replacing Social Security with private investments, we welcome the dialogue; but no one should be under the impression that privatization is needed to "save" Social Security from "bankruptcy." That's just not true.

Fortunately there are many changes for Social Security that young people would likely support. For example, raising the amount of income subject to Social Security taxation. Most young people have no idea that you stop paying Social Security taxes today once you hit $90,000—since they never earn anywhere near that amount. It's a loophole so big that Bill Gate's entire income can pass through—and when our members find out about it, they are usually incredulous. Making the tax fairer would be a big step in the right direction.

Most important, that is the kind of change that can preserve the essential guarantee. As the pension system has changed, today's young workers, more than any generation to come before, are responsible for investing on their own for most if not all of their income above Social Security.

Perhaps that is why so many young people are telling us, "We want that guarantee to be there today *and* tomorrow."

To address their concerns—and to promote financial literacy among today's youth—I ask you to join us in saying, "*Don't be fooled. Social Security is not going bankrupt*."

Thank you for time and, on behalf of our members, thank you for inviting Rock the Vote to present today.