

Social Security Subcommittee hearing on “What workers need to know about social security as they plan for their retirement”

COMMITTEE: Social Security Subcommittee

SUBJECT: Discussion about what workers need to know about social security as they plan for their retirement

DATE OF MEETING: Tuesday, July 29, 2014

Members Present:

Subcommittee members: Chairman Johnson (R-TX), Mr. Becerra (D-CA), Ms. Schwartz (D-PA), Mr. Thompson (D-CA), Mr. Doggett (R-TX), Mr. Tiberi (R-OH), Mr. Griffin (R-AR), Mr. Renacci (R-OH), Mr. Kelly (R-PA). (Mr. Shock and Mr. Brady were absent.)

Witnesses: Mr. Kotlikoff, Mr. Biggs, Ms. Entmacher, Mr. Steuerle, Mr. Schieber and Mr. Blahous.

Overview

The House Ways and Means held a hearing to solve the issues regarding social security and retirement plans.

Opening Statements

Chairman Johnson stated that unless Congress does its job, full benefits can't be received. Social security should be available not just for retirees or elderly, but also for their children and grandchildren. The sooner Congress acts the better because 18 to 34 year olds don't believe that social security will exist when the time comes for them to retire forcing them to save for their retirements. He affirmed that the hearing is not only about assuring social security existence for now and the future, but also starts the conversation about what workers should know about social security.

Mr. Becerra opened his statement by indicating that 6 out of 10 of seniors rely on social security for income and those over 65 end up being poor as a result of it. He clearly stated that the problem is due to the Republican budget, which is affecting social security. He asked the subcommittee to hold a hearing on social security budget in order to find solutions to quickly solve the problem.

“I said it on our hearing that took place on June of 2011 and I will say it again, our biggest threat is the Republican budget.” As a result, social security budget is lower today as it was back then and disabled workers are waiting longer and longer to receive their benefits.”

He also criticized the customer service in social security bureau by mentioning that the 800 number seniors call usually has a busy line or even if they get through they get put on hold for hours.

Chairman Johnson then affirmed that social security received a 34% budget increase since the GOP took over and that all but one budget has been bipartisan. He also mentioned that 300 million dollars on the implementation of a new computer that crashed, which he considered a waste of money.

Witnesses opening statements

Charles Blahous

*Director of the Spending and Budget Initiative
Mercatus Center*

Mr. Blahous, public trustee for social security and Medicare stated that social security financial shortfall. He emphasized that this shortfall took a long time to develop and if it was acted upon as it started developing the problem would have been solved. He affirmed that social security cost is not proportional with the economy we have, therefore, changes have to be made.

Sylvester Shierber

Independent Consultant

Mr Shierber, private consultant, made three specific points:

- Retirement income replacement models are used widely in retirement plan design and communications for broad participant populations because generalized rule-of-thumb directions are the best vehicles available to plan sponsors and administrators
- More microscopic lifecycle and similar models are beyond most workers reach, but can help policymakers and analysts understand whether the cruder measures are effectively helping workers achieve reasonable retirement savings goals
- Social Security earnings replacement rates presented by the Trustees are not equivalent to conventional replacement rate measures and may be confusing to many participants and analysts

Eugene Steuerle

*Richard B. Fisher Chair
Urban Institute*

Mr. Steuerle broke down his concerns about the social security system currently taking place.

Social security provides unequal justice, working single parents are forced to pay for benefits they won't even receive, the system discriminates against same sex marriage, those divorced before 10 years of marriage, threatens the well-being of the elderly, leads the government to spend less on education and other important factors and contribute to a higher unemployment.

He also highlighted that people retire a decade earlier than they used to due to all these negative factors affecting them.

Joan Entmacher

*Vice President for Family Economic Security
National Women's Law Center*

Ms. Entmacher highlighted that social security is the basis of retirement security for most Americans. She gave the subcommittee facts she had researched previously.

She stated that last month, over 58 million Americans received income social security, and that retired workers and their families make up the largest group, over 70%; 19% are people with disabilities and their families; and a little over 10% are surviving spouses and children.

She specified that benefits are modest, with the average social security benefit for women 65 and older being \$13,100/year and about \$17,200 for men 65 and older. About 40% of female retirees receive worker benefits that would not provide a poverty-level income, compared to less than 20% of male retirees.

She concluded her statement by stating that these modest payments are critically important. Social security lifts 22.2% Americans out of poverty, including 15.3 % seniors (65 and older) and over 1 million children. Over 870,000 Texans and nearly 1.3 million Californians are lifted out of poverty by Social Security. She specified that it is especially important to women without social security, half of all women 65 and older, and two-thirds of women 65 and older living alone, would be poor.

Andrew Biggs

*Resident scholar
American Enterprise Institute*

Mr. Biggs started his statement by guaranteeing that the views he expressed in his statement were completely his. He expressed that much of what Americans need to know about Social Security is difficult to understand and that most of what we think we know about the system turns out not to be true.

He emphasized that the state of retirement security in the U.S. is substantially better that we would think. He said: "While some studies claim that Americans face a "retirement crisis," these studies make a number of methodological choices that, in my view, are unsupportable."

However, he emphasized that Americans still face retirement risks. Social security's financial status has worsened considerably in recent years. He added that the insolvency of social security is by far the largest risk facing Americans retirees, but Congress has done nothing to address the issue.

Laurence Kotlikoff
Professor of Economics
Boston University

Mr. Kotlikoff, a William Fairfield Warren Professor at Boston University, started his statement by describing social security as a fantastic, yet catastrophic success. Though Social Security has brought positive aspects to the table, it does not erase its enormous problems.

He stated that according to the Table IVB6 of the 2013 Social Security Trustee's Report, which reported that Social Security has a \$23 trillion fiscal gap measured over the infinite horizon. He explained that \$23 trillion is 32% of the present value, also measured over the infinite horizon, of Social Security's future revenues. Hence, Social Security is 32% underfinanced, which means it is significantly worse financial shape than Detroit's two pension funds taken together.

He added; "Social Security's \$23 trillion debt, which Congress has chosen to keep off the books, swamps the \$13 trillion of official debt in the hands of the public."

Discussion

Once they concluded their opening statements, Chairman Johnson asked Mr. Blahous how big is the Social Security downfall.

Blahous answered: "We certainly face a problem on the disability side of things and that has to be addressed right away by Congress."

Mr. Becerra, then, addressed a question to all witnesses. He asked "So, where should we go with all of this?" He continues; "Democrats say we should keep the problem and improve it to help America grow."

He affirmed that though the Social security program is not looking so good, it is solvable; therefore, he doesn't refer to it as a crisis. For Blahous, a crisis is "going to war and paying for it using the government's credit card."

He reminded everyone that the hearing he was talking about at the beginning in his statement should take place soon, "haunting everyone trying to hide under the rocks regarding Social Security."

Mr. Tiberi then started by giving an example of his 47 year old sister, who is expected to retire in 20 years. She doesn't have confidence that she will be able to retire a settled retirement because the system isn't reliable.

Mr. Biggs then addressed to the subcommittee that the system shouldn't look like a Welfare plan.

Mr. Doggett then emphasized that despite the issue, Social Security is the most effective program approved. He said that we're able to survive after crucial incidents because of Social Security; therefore, all should be willing to improve the system.

Ms. Entmacher reminded everyone that women are more affected by the issue because of the wages they receive, which doesn't allow them to cover their essential costs.

Ms. Schwartz affirmed that Social Security is not a problem between Republicans and Democrats. She specified that the question should be how to retackle this issue faced with. She raised the issue of income and inequality that was previously mentioned.

She closed her commentary by stating that Social Security will be there if we make a commitment as Congress and that everyone should work on the solution and not spend time analyzing the crisis.

Mr. Thompson, then, asked the witnesses if they wish Social Security to be privatized. Mr. Kotlikoff tried to explain his view on the situation, but was cut off by Thompson, who said: "I'm not interested in commentaries, just a yes or no answer."

The room stayed silent for about 30 seconds and all the witnesses replied. They affirmed they don't want Social Security to be privatized, but maybe individualized.

Later, Mr. Griffin asks Mr. Blahous to walk him through how much money is needed to be borrowed.

He assured the subcommittee that he will submit a proposal with the exact breakdown of the cost in question.

Chairman Johnson made his final closing of the hearing by briefly summarizing what was discussed. He said that the Social Security system is facing challenges crippling workers to plan for their future due to the unreliability. He emphasized that the issue has to be worked on in order to be solved. Before he adjourned, Mr. Kotlikoff interrupted the Chairman with a matter, however, he was told to submit a letter to the committee due to lack of time. And, the hearing was adjourned.