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FY 2000 Budget 2/1/99 Budget Background - Past Speeches - Articles [2]

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. report	Tough Q & As on Fiscal Discipline. Handwritten Phone Number. [partial] (1 page)	c. 1999	P6/b(6)

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RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

P1 National Security Classified Information [(a)(1) of the PRA]
P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
P3 Release would violate a Federal statute [(a)(3) of the PRA]
P4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
P5 Release would disclose confidential advice between the President and his advisors, or between such advisors [a)(5) of the PRA]
P6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

C. Closed in accordance with restrictions contained in donor's deed of gift.
PRM. Personal record misfile defined in accordance with 44 U.S.C. 2201(3).
RR. Document will be reviewed upon request.

Freedom of Information Act - [5 U.S.C. 552(b)]

b(1) National security classified information [(b)(1) of the FOIA]
b(2) Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
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THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release May 16, 1997

REMARKS BY THE PRESIDENT ON BUDGET AGREEMENT

The Rose Garden

11:25 A.M. EDT

THE PRESIDENT: Good morning. Less than two weeks ago, the Vice President and I joined with leaders of Congress in announcing a truly historic agreement, a bipartisan agreement to balance the federal budget for the first time in nearly three decades. We knew that only by finishing the job of putting our fiscal house in order could we keep our economy thriving for all Americans. And I knew that because of all the progress we've made in the last four and a half years, we could balance America's books while protecting America's values and preparing the American people for the 21st century. Last night, we took the next significant step toward writing the spirit and substance of that agreement into the law.

I want to begin by thanking Chairman Domenici, Chairman Kasich, Senator Lautenberg and Congressman Spratt for their hard work and their earnest commitment to sticking with this very difficult process to put our balanced budget agreement in writing. I know from my own negotiating team that we would not be here today without their good faith and good efforts. And I am deeply grateful to them.

I also want to thank the congressional leadership who supported this process. And I'd like to thank the people who are here -- the Vice President; Erskine Bowles, who's still a pretty good negotiator even though he's left his beloved private sector; Secretary Rubin; Deputy Secretary Summers; OMB Director Frank Raines; NEC Director Gene Sperling; our CEA Chair, Janet Yellen; and John Hilly, who handles our congressional relations and had one the most difficult and demanding jobs of his life in the last few weeks; OMB Deputy Director Jack Lew.

I'd like to also thank all the people who are here from OMB, Treasury, and perhaps from other agencies who were the team that put the numbers together that made this agreement possible. Thank you. You ought to give yourselves a hand. You did a great job. Thank you. (Applause.)

We have finalized a detailed description of the agreement reached two weeks ago. The document is already before the relevant congressional committees who are now moving the balanced budget resolution through the legislative process at an expedited pace. This agreement will keep in place the economic strategy that has served our nation so well for the last four and a half years.

When I took office, I was determined to reverse the failed policies of the past. Back then, we faced growing deficits as far as the eye could see. It was a time of economic stagnation and high unemployment. We moved quickly in 1993 to put in place a policy of invest and grow -- cut the deficit, invest in our people, open new markets around the world through tough trade agreements.

We are now in the fourth year of the disciplined, tough, five-year economic strategy we put in place in 1993. The results of the strategy are now clear and no longer subject to reasonable debate: 12 million new jobs, the highest economic growth in a decade, the lowest unemployment in 24 years, the lowest inflation in 30 years, the largest decline in income inequality since the 1960s. And the deficit has been cut already by 77 percent. Our economy is now the envy of the world.

That progress has brought us to this rare moment in history and made it possible for us to balance the budget in a way that balances our values. America needs a balanced budget that is in balance with our values; that protects Medicare and Medicaid, education and the environment; that gives tax relief to working families, and that prepares our people for the 21st century. That is exactly what this budget does.

What is important about the agreement is not only what it does on a spreadsheet, but what it will do for our families and our future. It keeps our fundamental commitments to our parents, preserving and protecting Medicare for at least decade, without steep premium increases. Because of this agreement, 5 million American children will have health care who do not have it today. The agreement protects our air, our water and our land for future generations.

I'm especially pleased that it includes the funds to clean up 500 of our most dangerous toxic waste sites and to go forward with our commitment to preserve and restore the Florida Everglades. It helps to move people from welfare to work by providing tax incentives to businesses to hire welfare recipients, and support for community service jobs in areas of high unemployment. It restores unwise cuts made last year and restores fair treatment to immigrants who legally come to America for the promise it provides. It gives middle class families tax relief to help sell a home, raise their children and send those children to college. In each of these ways it honors our values.

At the very heart of this agreement, however, is its historic investment in education. This agreement includes the most significant increase in education funding in 30 years. Even more important, it provides the largest single increase in higher education since the G.I. Bill in 1945, more than 50 years ago.

That landmark legislation gave opportunity to millions of Americans and gave birth to the American middle class. That was my goal for this budget: to dramatically expand opportunity through education and give all our children the tools they need to succeed in a new economy in a new century.

That is why I insisted that this balanced budget also be America's education budget. It not only puts our fiscal house in order, it opens the schoolhouse door wider than ever before -- with $35 billion in tax relief for higher education, including our HOPE Scholarship tuition tax credit to make two years of education after high school as universal as a high school education is today, and tax deductions for all the costs of tuitions after high school.

It includes the largest increase in Pell Grant scholarships for deserving students in three decades. It helps to raise standards in our schools. It funds our America Reads challenge to make sure every 8-year-old can read independently. It helps to bring the information age to our schools so that we can meet the goal that the Vice President has worked so hard for, to connect all of our schools and libraries to the Internet by the year 2000.

All across America last year, I said I wanted a nation in which every 8-year-old would be able to read, every 12-year-old could log on to the Internet, every 18-year-old could go to college, every adult could keep on learning for a lifetime. This balanced budget takes a major stride toward these goals.

This is not only the first balanced budget in a generation; it is an American balanced budget that protects our values for future generations.

So I say to all members of Congress of both parties, take this balanced budget agreement and write it into law. If we stay true to this historic agreement, if we have the courage to eliminate the deficit while dramatically expanding opportunity through education, we will enter the 21st century stronger and better prepared for the challenges and the opportunities that lie ahead.

Thank you very much. (Applause.)

Q Mr. President, two weeks ago, we were told that there was a deal and there was much hoopla. We came to find out at that point that -- if I may use the egg analogy -- that the shell was relatively thin. How much thicker is the shell now, and can this egg still crack up, so to speak?

THE PRESIDENT: Well, first of all, I think we did have a deal two weeks ago. And I think the fact that we've reached agreement in writing on the details is evidence that there was one.

But when you agree on broad principles and you have long hours of negotiations, there's still some difficulties involved in writing the details of the agreement down, making sure everybody remembers it the same way, that you've got the kind of accord you need. So this is a huge step forward because now we have a much more detailed committed to writing.

Wolf?

Q Mr. President, I wonder now that the Senate has rejected Senate Daschle's compromise proposal on the late-term abortion procedure, I wonder if there is any way that you think language could be crafted that would avoid your having to veto Senator Santorum's legislation once again?

THE PRESIDENT: Well, of course. I have nothing to add to what I have said on this all along. What I need to do is to be convinced that no woman will be grievously harmed by this legislation, and that no woman will be put in the position, for example, of being so harmed that she will never be able to have further children because of this legislation. You know what my concerns are; I've made them abundantly clear.

I must say, I regret that Senator Daschle's legislation did not pass because it would have reduced the number of abortions by far, far more -- light-years more than the Santorum bill. The Santorum bill may not reduce the number of abortions by one.

So what we don't want to do is to, in effect, not reduce the number of abortions in the third trimester, which the Supreme Court permits us to do, and which I've invited the Congress to do ever since I got here, and at the same time put a lot of women's health at risk in a way that is unwise and unconstitutional.

Q Mr. President, what are you thoughts on Mobutu losing power in Zaire?

THE PRESIDENT: Well, I want to make a couple of points on it. It does appear that he has left Kinshasa. The United States position is clear: We want to see a transition to a genuine democracy. The second point I want to make is that President Mandela of South Africa has done a superb job of exercising leadership in this area, and the United States is supporting him and his efforts. And I want the whole world to get behind the leadership that Nelson Mandela is showing there and to do what we can to support Africa in taking one of the largest and most important nations in Africa and promoting a democratic transition. That is what I think is important.

Thank you very much.

END 11:35 A.M. EDT

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release July 29, 1997

REMARKS BY THE PRESIDENT
ON THE BUDGET

The South Lawn

2:50 P.M. EDT

THE PRESIDENT: Good afternoon. Ladies and gentlemen, we have the pleasure of announcing today an historic agreement that will benefit generations of Americans. Last night we reached agreement with Congress on detailed legislation to balance the budget in a way that honors our values, invests in our people and cuts taxes for middle class families. After decades of deficits, we have put America's fiscal house in order again. (Applause.)

Above all, we are investing in education, America's most important priority. I am particularly pleased that the first balanced budget in a generation is also the best education budget in a generation and the best for future generations. (Applause.)

This agreement meets my goal of balancing the budget in a way that honors our values, invests in our people and prepares America for the 21st century. It is very, very good for our country. It's a victory for every parent who wants a good education for their children, for every child in a poor household who needs health care, for every immigrant struggling to make it here, for every family working to build a secure future. It is the best investment we can make in America's future.

Let me underscore the magnitude of this achievement. Four and a half years ago, when this administration took office, America's budget deficit was $290 billion and rising. We put in place a comprehensive economic strategy to cut the deficit and invest in our people. The budget plan adopted in 1993 made a large contribution to today's conditions in America -- a strong economy, low inflation, and a deficit that has already shrunk by more than 80 percent.

The budget agreement that we announced today would not be possible had it not been for the tough vote taken in 1993 to set us on the right path. (Applause.) Thank you. Now, this legislation will help to ensure the conditions for continued prosperity, keeping interest rates down and spurring investment. And, just as important, it will give our people the tools to reap the rewards of economic growth. Let me mention just a few of the details of this plan.

First, at the heart of this balanced budget is the historic investment in education -- the most significant increase in education funding in more than 30 years. It includes $35 billion in tax relief to help families pay for college and training -- the largest investment in higher education since the G.I. Bill 50 years ago. (Applause.) It will give every American who needs it a HOPE Scholarship to pay for the first two years of college. Its gives tax relief for all four years of college and for education throughout a lifetime. The overall budget agreement also includes the largest increase in Pell Grant Scholarships for deserving students in three decades, funds our America Reads Challenge, helps to connect all our schools and libraries to the Internet by the year 2000.

As the spending bills move forward in weeks to come, we will work to see that they reflect this agreement. I am pleased that this legislation also will give communities substantial tax cuts to help to build and modernize our schools. (Applause.)

All across America, I have challenged our people to make sure that every 8-year-old can read, every 12-year-old can log onto the Internet, every 18-year-old can go to college, every adult can keep learning for a lifetime. This balanced budget makes unprecedented progress toward those goals.

Second, this is a balanced budget that strengthens our families by extending health insurance coverage to up to 5 million children. (Applause.) By investing fully $24 billion we will be able to provide quality medical care for these children, everything from regular check-ups to major surgery. I want to thank all of the people in Congress and among my fellow Democrats here who worked so hard on the health care issue, but I especially want to say a thanks to Senator Kennedy, Senator Rockefeller and to the First Lady for what they have done over these years to help us to reach this important day. (Applause.)

We want every child in America to grow up healthy and strong and this investment takes a major step toward that goal. I'm also pleased that Congress agreed to pay for the children's health care in part with a new 15-cents-a-pack tax on cigarettes. Not only will this new revenue help to pay for health care, it will help prevent children from taking up smoking in the first place. (Applause.)

Third, this is a balanced budget that provides modest tax relief to the middle class, helping families to raise their children, buy and sell a home, save for their retirement with expanded IRAs and send their children to college. We fought very hard to make sure this tax cut helped a wide range of middle class parents, all those who are working hard to raise their children, pay their taxes and be good citizens, and the agreement does just that. (Applause.)

Fourth, this is a balanced budget that will help us finish the job of welfare reform, providing $3 billion to move welfare recipients to private sector jobs, keeping our promise made last year to provide $12 billion to restore disability and health benefits for 350,000 legal immigrants. And, as the Vice President will describe, it will double the number of empowerment zones to bring the spark of private enterprise to our hardest-pressed neighborhoods. (Applause.)

Finally, this is a balanced budget that honors our commitment to our parents by extending the Medicare Trust Fund for a decade and to the next generation by continuing our commitment to the environment to protect our air, our land, our water, to clean up the worst toxic waste sites in the nation. And we achieve all these goals while eliminating the budget deficit by 2002. We are determined never again to repeat the mistakes of the past, when we mortgaged our economy to reckless policies. This budget reforms and cuts yesterday's government so that we can help provide our people the means to meet the challenges of tomorrow.

Let me thank the negotiators for the administration who did a superb job, all the democratic lawmakers here and, indeed, all of the members of Congress who worked hard on this legislation. I also want to say a special word of appreciation to Senator Lott and Speaker Gingrich, to Senator Domenici and Congressman Kasich and to their committee chairs, who worked with us across the lines of substantial philosophical and practical differences to reach a good faith agreement that is an honorable and principled compromise. And especially let me thank Senators Daschle and Lautenberg, Congressman Spratt and Congressman Rangel for their leadership.

This agreement is a monument to the efforts that people, who good will can make, when they put aside partisan interests to work together for the common good and our common future. It reflects the values and aspirations of all Americans. And I hope and expect it will marshall strong majorities of both parties in both houses.

This summer we had an historic opportunity to strengthen America for the 21st century and we have seized it. Now our nation can move forward stronger, more vibrant, more united than ever. For that, I am profoundly grateful.

Now I'd like to ask the Vice President to come forward and let me thank you all again for this great, great day. (Applause.)

* * * * *

Wait, wait. We forgot to say one thing. We still have to pass this agreement. (Laughter.) And so, tomorrow, the next day -- and I hope it will be over by then -- all of us who are for it, in both parties, have a solemn obligation to go out there and try to keep moving and keep this spirit alive and actually pass it. We are celebrating an agreement; we still have to celebrate the passage of the bill and then the signing of the bill, and I look forward to being here for that with all of you and others as well.

Thank you very much. (Applause.)

END 3:25 P.M. EDT

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release August 5, 1997

REMARKS BY THE PRESIDENT AT SIGNING OF THE BALANCED BUDGET ACT OF 1997 AND THE TAXPAYERS RELIEF ACT OF 1997

The South Lawn

11:33 A.M. EDT

THE PRESIDENT: Thank you very much. Mr. Speaker, Mr. Vice President, Senator Lautenberg, members of Congress, ladies and gentlemen: We come here today, Democrats and Republicans, Congress and President, Americans of goodwill from all points of view and all walks of life, to celebrate a true milestone for our nation. In a few moments I will sign into law the first balanced budget in a generation -- a balanced budget that honors our values, puts our fiscal house in order, expands vistas of opportunity for all our people, and fashions a new government to lead in a new era.

Like every generation of Americans before us, we have been called upon to renew our nation and to restore its promise. For too long, huge, persistent and growing budget deficits threatened to choke the opportunity that should be every American's birthright. For too long it seemed as if America would not be ready for the new century, that we would be too divided, too wedded to old arrangements and ideas. It's hard to believe now, but it wasn't so very long ago that some people looked at our nation and saw a setting sun.

When I became President, I determined that we must believe and make sure that America's best days were still ahead. After years in which the deficit drained our economy and dampened our spirit, in which our ability to lead the world was diminished by our inability to put our own house in order, after years in which too many people doubted whether our nation would ever come together again to address this problem, we set off on a new economic course -- to cut the deficit, to create the conditions in which business could thrive, to open more foreign markets to our goods and services, to invest in our people so that all Americans would have the tools they need to make the most of their own lives.

Today, our budget deficit has been cut by more than 80 percent. It is now among the smallest in the industrialized world as a percentage of our economy. Our businesses once again lead in world markets, now made more open, more free, more fair than ever before through our efforts. Our workers are clearly the most competitive on Earth, and we have recast our old government so that a new one can take shape that does give our people the tools to make the most of their God-given abilities.

This year, we -- Democrats and Republicans alike -- were given the opportunity and the responsibility to finish the job of balancing the budget for the first time in almost 30 years, and to do it in a way that prepares Americans to enter the next century, stronger than ever. By large, bipartisan majorities in both Houses, we have risen to that challenge.

The balanced budget I sign into law today will continue our successful economic strategy. It reflects the most fundamental values that brought us together. It will spur growth and spread opportunity. Even after we pay for tax cuts penny by penny, there will still be $900 billion in savings, including half a trillion dollars in entitlement savings over the next 10 years. It opens the doors of college to a new generation, with the largest investment in higher education since the G.I. Bill 50 years ago. (Applause.)

It makes it possible for the 13th and 14th years of college to become as universal as high school is today. It strengthens our families with the largest expansion in health care for children since the Medicaid program 32 years ago. It modernizes Medicare and extends the life of the trust fund for a decade. It helps our communities to rebuild, to move a million more people from welfare to work, to bring the spark of private enterprise back to our most isolated inner city neighborhoods. It provides the largest tax relief to help families raise their children, save for the children and pass on their home and a dream to the next generation. These tax cuts are the equivalent of a $1,000 raise in take-home pay for the average family with two children.

For so many Americans, what goes on here in Washington often seems abstract and remote, unrelated to their daily concerns. Well, this balanced budget deals with the big issues of the deficit and long-term economic growth in ways that respond to the practical challenges ordinary American citizens face every single day.

Because we have acted, millions of children all across this country will be able to get medicine, and have their sight and hearing tested, and see dentists and doctors for the first time. Millions of young Americans will be able to go on to college. Millions of Americans not so young will be able to go back to school to get the education and training they need to succeed in life. Millions of families will have more to spend on their own children's needs and upbringing. This budget is an investment in their future and in America's.

Today, it should be clear to all of us, without regard to our party or our differences, that, in common, we were able to transform this era of challenge into an era of unparalleled possibility for the American people. I hope we can tap this spirit of cooperation and use it to meet and master the many challenges that remain before us.

I want to thank, in closing, the many people whose work made this day possible. I want to thank Speaker Gingrich and Senator Lott, Mr. Armey and the other members of the House and Senate leadership, especially Senator Domenici and Representative Kasich. And let me thank Chairman Archer and Chairman Roth and the other leaders of the House and Senate committees. They were dedicated partners. They fought hard for their priorities. I want to thank Senator Daschle and Congressman Bonior and Congressman Fazio and Congressman Hoyer and the other members of the House Democratic leadership who worked with us.

I want to thank especially Congressman Spratt and Senator Lautenberg, Congressman Rangel and the other members of the House and Senate Democratic minority leaders in the committees for the work the they did. I thank all the members of the Congress who are here present and the many whom they represent who are already back home, who could not be. All of them deserve our thanks, and I would like to ask the members of the Congress who are here today to stand and be recognized and appreciated by the crowd. (Applause.)

I'd like to thank the members of our budget team: Erskine Bowles, Secretary Rubin, John Hilley, OMB Director Raines, Gene Sperling, Jane Yellen, Rahm Emanuel, Jack Lew, Larry Summers, Chris Jennings and many others, especially those who work in our legislative shop, too numerous to mention, for the enormous work that they did on this agreement. (Applause.)

I would like to thank the First Lady, Mrs. Gore, the Vice President for their concern for the health of our children, for the mental health of the American people -- and the Vice President, especially, who led the fight to protect our urban initiatives and our environmental program and the interests of legal immigrants in America. We owe to them a great deal. (Applause.)

Again, I say to all, I thank you. I believe that together we have fulfilled the responsibility of our generation to guarantee opportunity to the next generation; the responsibility of our generation to take America into a new century, where there is opportunity for all who are responsible enough to work for it, where we have a chance to come together across all of our differences as a great American community, where we will be able to continue to lead the world toward peace and freedom and prosperity. That is worthy work and you have all contributed doing it.

We can say with pride and certainty that those who saw the sun setting on America were wrong. The sun is rising on America again. And I thank you all. (Applause.)

END 11:43 A.M. EDT

TOUGH Q&AS ON FISCAL DISCIPLINE

Q: Aren't you double obligating the same money?

A:

- Not at all. The fundamental choice we face is how to allocate the $4.4 trillion in projected surpluses over the next fifteen years among debt reduction, tax cuts, and new spending.

- Every President since Johnson has conducted budget policy by deciding how to allocate the unified budget surplus.

- Our fiscal discipline of the past six years has put the nation in a position where we can meet our obligations to Social Security through 2032 and still run surpluses. The President believes we should go even further

  - Setting aside 62 percent of the surpluses for Social Security and 15 percent of the surpluses for Medicare so that we have the resources available to pay benefits in the programs in the future.

  - Buying down around $3 trillion in debt and allocating these savings to ensure that Social Security is secure until 2055 and that Medicare is secure until 2020.

[If Needed]

- Some have proposed taking Social Security off budget and paying down $2.7 trillion of debt without extending the life of the Social Security by a single year. This would limit the budget debate to how much of the remaining (on-budget) surplus would go to tax cuts, military and other spending, and individual accounts.

- If this approach truly managed to keep the Social Security surpluses from being spent and left them for debt reduction then this approach would put the country in a better fiscal situation, just as the President's plan does.

- However, the off-budget plan would leave open the allocation of the large future surpluses -- leaving them available for various forms of spending and large tax cuts.

- The President believes that we should take advantage of today's prosperity to prepare for the aging of America, and therefore that we should lock-in now that a good portion of the benefits from fiscal discipline be allocated to strengthen Social Security and Medicare.

Q: Won't the government have to cut spending, raise taxes or borrow more in the future to pay for the additional commitments the President's plan makes to Social Security and Medicare?

A:

- No this is not true. Projections show that if we simply maintain current levels of taxation, we will be running surpluses until the middle of the next century even after paying back all of our obligations to Social Security and Medicare.

- By setting aside funds now, the President's plan produces the resources to pay back Social Security in the future. It does this in four ways:

  - First, by investing some the surplus in equities, the plan builds up real assets that can be sold when the time comes to pay benefits.

  - Second, by reducing the debt to GDP ratio from 44 percent down to 7 percent the plan reduces debt servicing costs -- leaving more resources available for other purposes, including paying back Social Security.

  - Third, by paying down debt we increase capital formation. The resulting increase in the capital stock raises workers' productivity and national income. These additional real resources will increase the future standard of living, and make it easier to pay back the Social Security trust fund when it redeems its bonds.

  - Fourth, by nearly eliminating the national debt, the plan leaves us in a position to do a limited amount of additional borrowing, if necessary, without threatening economic prosperity.

Q: How does paying down the debt help us to pay Social Security in the future?

A:

- First, a little history. The 1983 Social Security reform act aimed to prepare the nation to meet its future obligations to Social Security by having the system take in more in revenue than it paid out in benefits for a couple of decades. These extra funds were supposed to be used to put the country on a fiscal trajectory to be able to pay back the Social Security trust fund when the trust fund needed to redeem its bonds.

- Unfortunately, irresponsible fiscal policy in the 1980s and early 1990s squandered these Social Security surpluses, and by the time President Clinton took office in 1993 large deficits were forecast as far as the eye could see and there were serious doubts about how the country would be able to pay back what it owed to Social Security,.
- Six years of tough choices and fiscal discipline have turned things around. Because of the 1993 budget act, disciplined appropriations, and the 1997 budget agreement, we are now projecting large surpluses well into the next century, even after paying back every penny we owe to Social Security.

- The President believes we should go even further, buying down around $3 trillion in debt and allocating these savings to ensure that Social Security is secure until 2055 and that Medicare is secure until 2020.

- By setting aside funds now, the President's plan produces the resources to pay back Social Security in the future. It does this in four ways:

  - First, by investing some the surplus in equities, the trust fund builds up real assets that can be sold when the time comes to pay benefits.

  - Second, by reducing the debt to GDP ratio from 44 percent down to 7 percent the plan reduces debt servicing costs -- leaving more resources available for other purposes, including paying back Social Security.

  - Third, by paying down debt we increase capital formation. The resulting increase in the capital stock raises workers' productivity and national income. These additional real resources will increase the future standard of living, and make it easier to pay back the Social Security trust fund when it redeems its bonds.

  - Fourth, by nearly eliminating the national debt, the plan leaves us in a position to do a limited amount of additional borrowing, if necessary, without threatening economic prosperity.

Q: Why not just pay down the debt without incurring extra obligations?

A:

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. report	Tough Q & As on Fiscal Discipline. Handwritten Phone Number. [partial] (1 page)	c. 1999	P6/b(6)

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Speechwriting
Jeff Shesol
OA/Box Number: 19944

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b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

- Some have proposed taking Social Security off budget and paying down $2.7 trillion of debt without extending the life of the Social Security by a single year. This would limit the budget debate to how much of the remaining (on-budget) surplus would go to tax cuts, military and other spending, and individual accounts.

- If this approach truly managed to keep the Social Security surpluses from being spent and left them for debt reduction then this approach would put the country in a better fiscal situation, just as the President's plan does.

- However, the off-budget plan would leave open the allocation of the large future surpluses -- leaving them available for various forms of spending and large tax cuts.
- We believe that we should take advantage of today's prosperity to prepare for the aging of America, and therefore that we should lock-in now that a good portion of the benefits from fiscal discipline be allocated to strengthen Social Security and Medicare.

Q: You said that debt held by the public falls under the President's plan, but since the government is giving additional bonds to the trust funds, doesn't the government's total indebtedness stay the same?

A:

- No that is not the right way to think about the economic impact of the President's plan.

- Debt held by the public is the most important measure of government indebtedness because it tells us the extent to which government borrowing crowds out private capital formation. Under the President's plan, the ratio of debt held by the public to GDP will fall from 44 percent today to 7 percent in 2014 -- the lowest level since 1917. This will unleash a tremendous about of new private sector investment and will make the country much more able to meet our obligations to Social Security when the time comes for the trust fund to redeem its bonds.

- At a more fundamental level, the President's plan says that for every dollar of debt paid off, the Social Security or Medicare Trust Fund gets a claim on the future wealth created by our fiscal discipline. We think it makes perfect sense to allocate part of the gains from our fiscally responsible policies to extending the lives of the Social Security and Medicare trust funds.

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Q: In this week's Newsweek, there is a column arguing that the President's budget allocates 150 percent of the budget surplus. Is that true?

A:

- No it is not. The President's plan allocates 100 percent of the unified budget surplus. In focusing on the unified budget surplus, we do exactly the same thing that every President since Johnson has done in formulating budget policy.

- The fundamental budget policy choice we are facing is how to allocate $4.4 trillion in surpluses over the next 15 years among debt reduction, new spending, and tax cuts. The President's plan allocates the bulk of these surpluses to debt reduction, and gives Social Security and Medicare claims on the wealth created by our current fiscal discipline.

[If Needed]

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[If Needed]

- Our plan allocates the unified budget surpluses. Under the Newsweek type of accounting, every budget in the last 30 years would be guilty of "double counting" or spending more than 100 percent of the surplus.

- Social Security reform plans by budget experts such as Senators Gramm and Domenici [note Domenci now disowns the Gramm-Domenici plan], and by noted deficit hawks such as Feldstein, similarly allocate unified budget surpluses to shoring up Social Security in the future.

STRENGTHENING SOCIAL SECURITY AND MEDICARE BY PRESERVING FISCAL DISCIPLINE

I. The Current Situation

Pre 1993: Fiscally Irresponsible Policies in the 1980s and early 1990s Left the Country in Poor Fiscal Shape to Pay Back Future Social Security Obligations. The 1983 Social Security reforms intended for the government to set aside the excess of Social Security revenues over benefits, so that the country would be strong enough fiscally to pay back the Social Security trust fund in the future. Instead, the Reagan-Bush years produced mountains of debt increasing the publicly held debt from 26 percent in 1981 to 50 percent in 1993 and was expected to rise even further. When President Clinton took office in 1993, deficits of hundreds of billions of dollars were expected to persist for decades to come, and there were serious doubts about how the country would come up with the funds to pay back the Social Security trust fund without raising taxes, cutting benefits, or letting debt reach levels that would threaten our prosperity. In other words, the government failed to use the Social Security surpluses to prepare us to meet our obligations to Social Security in the future.

Post 1993: Tough Choices and Fiscal Responsibility Put the Government on a Course to Pay Back Social Security Obligations When They Come Due -- While Still Running Surpluses into the Middle of the Next Century. The 1993 economic plan (passed without a single Republican vote), fiscal discipline in appropriations, and the 1997 balanced budget agreement put the country on a path of prosperity and fiscal responsibility. In 1998, the surplus was $70 billion instead of more than $350 billion deficit that CBO projected when President Clinton took office in 1993. Because of this hard won fiscal discipline, our nation is better able to meet our Social Security Trust Fund obligations and still run surpluses for the first few decades of the 21st century.

II. Going Forward: The Debate Over How to Allocate the Surpluses

The Fundamental Choice: How to Allocate the $4.4 Trillion in Surpluses over the Next 15 Years Among Spending, Tax Cuts, and Debt Reduction?

President's Fundamental Solution: Debt Reduction with the Benefits Allocated to Extending Social Security and Medicare.

In His State of the Union Address, President Clinton Called for Us to Continue on This Fiscally Responsible Course. The President called for additional fiscal responsibility and debt reduction to extend the Social Security trust fund until 2055 and the Medicare Trust fund until 2020. Our fiscal discipline of the past six years has put the nation in a position where we can meet our obligations to Social Security through 2032 and still run surpluses. The President believes we should go even further, buying down around $3 trillion in debt and allocating these savings to ensure that Social Security is secure until 2055 and that Medicare is secure until 2020.

-- The President's plan sets aside 62 percent ($2.7 trillion) of the unified budget surplus over the next 15 years to help pay Social Security benefits in the future. Another 15 percent ($680 billion) would be set aside to pay for Medicare. Rather that squandering the surpluses on a tax cut favoring the most well-off or new spending programs, President Clinton is calling for taking the responsible course of setting these funds aside to help provide for the fiscal challenges ahead caused by the aging of American.

-- The President's basic approach of paying down the debt to strengthen Social Security and Medicare has drawn support from experts including Alan Greenspan, Robert Reischauer, Henry Aaron, and Robert Greenstein.

The Plan will Reduce the Nation's Publicly Held Debt and Increase the Savings Rate. Between 1981 and 1992 our publicly- held debt as a percent of GDP rose from about 25 percent to over 50 percent. Under President Clinton's leadership that trend has been reversed and debt held by the public as a percent of GDP has dropped to 44 percent. Furthermore, under President Clinton's plan the increase in debt held by the public from the 1980s will be completely reversed by 2006 and by 2014 will only be 7.1 percent. This will be the lowest debt to GDP level since 1917. National savings has increased from 3.3 percent when President Clinton took office to 6.7 percent today. By setting aside the surpluses rather than spending them, this plan will increase the national savings rate by another 1.9 percent of GDP. The USA accounts will add even further to national savings.

Why Debt Reduction Makes Our Nation Further Able to Extend Solvency of Social Security and Medicare. Paying off debt means that the government owes less money to private individuals. Thus, it improves the government's financial position.

- **Paying Off Debt Causes New Capital Formation to Occur.** Paying off debt means that private savings go into productive private investments rather than into government borrowing. The resulting increase in the capital stock raises workers' productivity and national income. These additional real resources will increase the future standard of living, and make it easier to pay back the Social Security trust fund when it redeems its bonds.

- **Paying Off Debt Reduces Debt Servicing Costs**. Payinf off debt increasing future budget surpluses and freeing up additional resources for other uses, including meeting our obligations to Social Security and Medicare.

- **Paying Off Debt Provides Government with Flexibility to Respond to Future Conditions.** Paying down debt also means that if the government later decided to finance some obligations by issuing new debt -- for example if there was a transition period before Social Security's revenues and benefits were in line -- it would be possible to do so without threatening future economic performance, and while keeping debt to GDP ratios below current levels.

The Rest of the President's Proposal Invests in the Future As Well. In addition to Strengthening Social Security and Medicare, the President's proposal provides USA accounts to help every American build the wealth they will need to finance longer lifespans. The plan also makes important investments in military readiness and education that will enable the country to continue to be strong and prosperous.

III. Alternatives to the President's Approach

Tax Cuts. If we allocate most of the unified budget surplus to tax cuts we will not lower our debt, increase our savings, or extend the life of the Social Security or Medicare trust funds. Moreover, we will jeopardize our ability to meet our obligations to Social Security between now and 2032.

New Spending. Some smart targeted spending on research and education can improve the nation's productivity and leave us with more resources in the future when the time comes to pay back our obligations to Social Security. But spending the entire surpluses will have similar consequences to reckless tax cuts -- we will not lower our debt, increase our savings, or extend the life of the trust funds, and we will jeopardize our ability to meet our existing obligations to Social Security.

Take Social Security Off-budget and Divide Remaining Surplus Among Tax Cuts and Military Spending. Some Republicans would simply have Social Security come off budget and pay down $2.7 trillion of debt. Then they would battle over only how much of the remaining surplus would go to tax cuts, military spending, and individual accounts. This would not extend the life of the Social Security Trust Fund a single year, because they would not be allocating any of the benefits of debt reduction to Social Security or Medicare. This approach to debt reduction will put the country in a better fiscal situation, just as the President's plan does, but the off-budget plan would leave open the allocation of the large future surpluses -- leaving them available for various forms of spending and large tax cuts. Democrats should want to lock-in now that at least a good portion of the benefits from fiscal discipline be allocated to strengthen Social Security and Medicare.

SAVING SOCIAL SECURITY FIRST AND MEETING AMERICA'S CHALLENGES FOR THE 21st CENTURY

In His State of the Union Address, President Clinton Put Forward His Framework To "Save Social Security First," While Meeting America's Challenges for the 21st Century. The President's and Vice President's framework strengthens Social Security by:

- Transferring 62 percent of the projected budget surpluses over the next 15 years -- more than $2.5 trillion -- to the Social Security system.
- Investing a portion of the transferred surpluses in the private sector to achieve higher returns for Social Security -- just as any state, local, or private pension does -- after working with Congress to devise a mechanism to ensure that the investments are made independently, without political interference, and with low administrative costs by the most efficient private-sector managers.
- Keeping Social Security solvent until 2055.
- Calling for a bipartisan effort to make the hard-headed, but sensible and achievable choices needed to save Social Security until at least 2075. As part of this effort, President Clinton and Vice President Gore believe that we must:
    - Reduce poverty among elderly women -- particularly widows, who have a poverty rate nearly twice the overall poverty rate for older Americans.
    - Eliminate the confusing and out-dated earnings test so that we stop discouraging work and earnings among older Americans.

After Social Security Reform Is Secured -- Consistent With the President's "Save Social Security First" Commitment -- the President Proposes To:

- **Strengthen Medicare for the 21st Century.** The President's framework will reserve 15 percent of the projected surpluses for Medicare, ensuring the Medicare Trust Fund is secure for 20 years. The President believes that these new resources should be used to help achieve broader, bipartisan reforms -- which include a prescription drug benefit.
- **Create New Universal Savings Accounts -- USA Accounts.** The President's framework will reserve 12 percent of the projected surpluses to create new

Universal Savings Accounts (USAs) so all working Americans can build wealth to meet their retirement needs. To help Americans save and to strengthen our current pension system, the government will provide an equal dollar contribution for most Americans. In addition, the government will match a portion of each dollar an individual puts into the USA account -- with larger matches going to lower-income workers.

- **Prepare America for the Challenges of the Future.** The President's framework will reserve 11 percent of the projected surpluses for military readiness and pressing national domestic priorities, such as education and research.

SAVING SOCIAL SECURITY FIRST: STRENGTHENING SOCIAL SECURITY FOR THE 21st CENTURY

In his State of the Union Address, President Clinton Put Forward A Framework To Strengthen Social Security for the 21st Century. Since its creation more than 60 years ago, Social Security has been a bedrock of retirement security for Americans. There are 76 million baby boomers looking ahead to retirement. By 2030, there will therefore be twice as many elderly as there are today, putting pressure on the Social Security system. After 2032, Social Security will have only enough resources to cover 72 cents on the dollar of promised benefits. President Clinton and Vice President Gore believe we must act now to tackle this tough, long-term challenge. That is why they are proposing to:

Use the Budget Surplus To Save Social Security

- **"Saving Social Security First."** Last year, in his State of the Union Address, President Clinton promised to save the budget surplus until we knew how much would be needed to save Social Security for the 21st century. This year, in his State of the Union Address, President Clinton reiterated his pledge to save Social Security first -- committing to reserve the budget surplus until Social Security reform is secured.

- **62 Percent of the Projected Budget Surpluses Will Be Used to Save Social Security.** President Clinton proposes to transfer 62 percent of the projected budget surpluses over the next 15 years -- more than $2.5 trillion -- to Social Security. To achieve higher returns for Social Security, approximately one-quarter of the transferred surpluses will be invested in the stock market.

Invest A Portion of the Surpluses To Achieve Higher Returns for Social Security

- **Invest Portion of Surpluses To Achieve Higher Returns, Working With Congress to Devise Mechanism to Ensure Independent and Non-Political Investments.** We want to work with Members of Congress from both sides of the aisle to craft a bipartisan Social Security plan which invests a portion of the surplus transferred to Social Security to achieve higher returns, and include a mechanism to ensure investments are made independently, without political interference, and with low administrative costs using a broad-based neutral approach by the most efficient private-sector managers.

- **President's Framework to Invest In Equities Minimizes Risk.** Whatever risk of ups and downs in the stock market will be borne by the government, not retirees. Moreover, the risk to the government will be very small. For example, in 2032, 95 percent of retirement benefits will come from payroll taxes or redemption of Treasury bonds. That means that just six cents on every dollar Social Security pays out will depend on stock market performance.

Save Social Security Until 2055 -- And Work Together To Save It Until At Least 2075

- **President's Framework Keeps Social Security Solvent Through 2055.** By transferring half of the projected surpluses for the next 15 years to Social Security and investing a portion of them in the market -- just like any private or state government pension does -- we will ensure that Social Security is on sound footing for 55 years -- until 2055.

- **Must Work Together -- Across Party Lines -- To Make Hard-Headed, But Sensible and Achievable Choices To Save Social Security for 75 Years.** President Clinton's goal is to save Social Security for 75 years. To do so, he believes we must work together in a bipartisan way to make the hard-headed, but sensible and achievable, choices to save Social Security through at least 2075.

With This Framework -- Publicly Held Debt, As Share of GDP, Falls To Lowest Since 1916.

- **Turning Around America's Fiscal Position.** Under Presidents Reagan and Bush, the publicly held debt quadrupled, rising from $785 billion in 1981 to $3.2 trillion in 1993. As a share of the economy, the publicly held debt increased from 25.8 percent in 1981 to 50.2 percent in 1993. Since President Clinton took office, the publicly held debt -- as a share of GDP has dropped to about 45 percent.

- **Debt-to-GDP Ratio Will Fall to Lowest Level Since Before World War II.** Under the President's framework, current projections suggest that the publicly held debt, as a share of GDP, will fall from about 45 percent today to 8.1 percent in 2014 -- its lowest level since 1916.

Reduce Poverty Among Elderly Women -- Particularly Widows

- **Poverty Rates Among Elderly Women -- Particularly Widows -- Remain High.** For 25 percent of unmarried women, Social Security is their only source of income. The poverty rate for all elderly women was 13.1 percent in 1997. For widowed women, poverty rates are significantly higher than men: the poverty rate is 18.0 percent for widowed women -- nearly four times the poverty rate of married women (4.6 percent) and much higher than the poverty rate of widowed men (11.4 percent).

- **President's Framework Would Lower Poverty Rates Among Elderly Women -- Especially Widows.** Currently, widow benefits vary from 50 to 67 percent of benefits for a married couple when were alive. The official poverty thresholds imply that a widow needs 79 percent of a couple's income to maintain her pre-widowhood consumption. This is a key reason why widow poverty is so much higher than overall elderly poverty. The President is committed to reducing the loss of Social Security income at widowhood.

<u>**Eliminate the Out-Dated and Confusing Earnings Test**</u>

- **Earnings Test Should Be Eliminated Because It Is Out-Dated And Confusing -- And It Discourages Work and Earnings Among the Elderly.** The Social Security earnings test is a confusing and tattered relic of a past era. It discourages the elderly from working; indeed, one recent academic study concluded that eliminating the earnings test could increase labor supply among elderly beneficiaries by 5.3 percent. It is confusing and administratively complicated; many beneficiaries are bewildered by the rules and administering the earnings test imposes significant administrative burden on the Social Security Administration. Finally, eliminating the earnings limit would have almost no effect on the long-run actuarial balance of the Social Security system.

- **President Clinton Believes We Should Eliminate The Earnings Test.** President Clinton believes that the earnings test has outlived its use. Today, it primarily serves to confuse people, and to discourage them from working. We want to work with Members of Congress to eliminate the earnings test as part of a comprehensive package to strengthen Social Security for the 21st century.

MEETING AMERICA'S CHALLENGES FOR THE 21st CENTURY

After Social Security Reform Is Secured -- Consistent With the President's "Save Social Security First" Commitment -- The President Proposes To Meet The Following Three Challenges:

STRENGTHENING MEDICARE FOR THE 21st CENTURY

RESERVE 15 PERCENT OF THE PROJECTED SURPLUSES FOR MEDICARE, EXTENDING THE LIFE OF THE MEDICARE TRUST FUND FOR 20 YEARS.

- **We Must Prepare for the Health Care Challenges of the Next Century.** In its 30-year history, Medicare has contributed towards longer lives and better lives for America's elderly and disabled. However, Medicare -- like Social Security -- will be impacted by the tidal wave of the "Senior Boom." Its enrollment is expected to double by 2030. In addition, Medicare -- as well as the private sector -- faces escalating health care costs. As a result, the Medicare Trust Fund is expected to run out in 2008, if no actions are taken.

- **Reserving Nearly One in Six Dollars of Surplus to Help Keep Medicare Safe Until 2020.** The President's framework would reserve 15 percent of the projected surpluses -- more than $600 billion -- over the next 15 years for the Medicare Trust Fund. These funds would be prohibited from being used for any other purpose, ensuring that the money will go to help the health care needs of older and disabled Americans. Even in the absence of broader reforms, the President's framework would guarantee that Medicare can continue to provide its critical health services until 2020 -- doubling the life of the Medicare Trust Fund and providing the strongest outlook in the last 25 years.
- **New Funds Should Be Used To Help Achieve Broader, Bipartisan Reform.** The President believes that the Medicare Commission and Congress should utilize these new dedicated dollars as part of broader, bipartisan reforms. Such reforms, including the development of a long-overdue prescription drug benefit, are essential to efficiently providing health care to the elderly and people with disabilities in the 21st century.

UNIVERSAL SAVINGS ACCOUNTS (USAs)

RESERVE 12 PERCENT OF THE PROJECTED SURPLUSES TO CREATE NEW UNIVERSAL SAVINGS ACCOUNTS (USAs) SO EVERY WORKING AMERICAN CAN BUILD WEALTH AND A NEST EGG TO MEET THEIR RETIREMENT NEEDS.

- **USA Accounts Will Help Americans Build Wealth for Their Retirement -- Strengthening Personal Savings and Pensions.** Under the President's framework, we will reserve 12 percent of the projected surpluses over the next 15 years -- about $33 billion per year -- to create Universal Savings Accounts (USAs), so that every working Americans can build wealth and a nest egg for retirement. This will help strengthen the other two legs of retirement security: personal savings and pensions.

- **Under Hypothetical Example, Average Person Could Build About $130,000 in Wealth in USA Account.** While the full details of how USA accounts will be structured need to be worked out, one potential way would be for an average worker -- earning $45,000 -- to receive a flat $100 contribution from the government. Then, if the average worker contributes $600 each year -- about $11.50 per week -- the government would provide a matching contribution of half that amount (or $300). In other words, the government would put $400 into the USA account, if the worker put $600. With the power of compound interest, the USA account would grow to about $130,000 during the individual's working life. Changes in the size of the contribution and the match rates would alter the outcome of this example.

- **We Want to Work With Congress And Experts To Determine Precisely How USA Accounts Will Be Structured.** President Clinton believes the government should provide an equal dollar contribution for most Americans. In addition, the government will match a portion of each dollar an individual puts into the account -- with larger matches going to lower-income workers. However, we want to work with Members of Congress, and pension and personal savings experts to ensure that USA Accounts build on the current private-sector pension system and help working Americans save for their futures. Therefore, the exact size of the contributions, match rates, and income limits will be announced later.

MILITARY READINESS AND OTHER CRITICAL INVESTMENTS IN AMERICA'S FUTURE

RESERVE 11 PERCENT OF THE PROJECTED SURPLUSES FOR MILITARY READINESS AND PRESSING NATIONAL DOMESTIC PRIORITIES, SUCH AS EDUCATION AND RESEARCH.

- **Ensuring America's Military Continues to be Ready for the Challenges of the 21st Century.** At the beginning of January 1999, President Clinton proposed a bold, new strategy to ensure that America's military continues to be fully prepared to protect our national interests as the world's most powerful fighting force. Reserving 11 percent of the projected surpluses over the next 15 years -- nearly $500 billion -- will provide the resources to meet the President's proposed detailed blueprint for military readiness over the next six years.

- **Ensuring We Meet Other Critical Investments In America's Future.** Besides military readiness, the setting aside of 11 percent of the projected surpluses will allow America to meet its other critical investment needs, such as education and research.

INDEX OF Q&As

- What is the maximum share of the stock market that the government will own?
- What do these calculations assume?
- How do you intend to protect these investments from political interference?
- How will corporate governance issues such as proxy voting be handled?
- Where will these funds be invested?
- Will the funds be invested in international stocks or only in domestic ones?
- What will prevent politicians from legislating that certain industries, such as tobacco cannot be invested in or that certain activities deserve investment (building low-income housing) or that firms that move jobs overseas or hire child labor do not deserve to be invested in?
- Won't there be large administrative costs in this system -- Social Security has low administrative costs?
- What share of Social Security's portfolio will be in stocks and what share will be in special-purpose Treasury bonds?
- Would the Trust Fund investments contemplated under this plan affect prices in the stock market?
- If the surpluses are only invested in publicly traded equities, won't this be unfair to small companies?
- Isn't this just another form of taxation?
- Shouldn't the government use Trust Fund assets to promote urban America / the environment / education?
- Are you going to use the trust funds to support share prices in case of a market downturn?
- Will you sell stock to improve the budget picture?
- What would happen during a market downturn? Would the government guarantee the existing benefit structure, by raising taxes? Or would social security benefits be cut?
- What has been the experience of state and other governments that have invested in equities?

TOUGH CHOICES (PAGE 21-23)

- What types of options are on the table to extend the trust fund's life to 75-years?
- Would the President consider raising the retirement age (similar questions on COLAs, tax increases, benefit cuts)?
- Are you trying to achieve 75-year solvency or are you trying to do more?
- If we only do 75 years, won't we have to do reform again in a few years?
- Why didn't the President show leadership by proposing specific benefit cuts and tax increases?
- Isn't the President proposing all of the easy good news and leaving the pain for later?
- What kind of process do you envision to try to get reform done?
- Would the President be satisfied with protecting Social Security for 50 years?

REDUCING THE POVERTY RATE OF ELDERLY WOMEN (PAGE 24-27)

- What does the President plan to do to reduce poverty among elderly women?
- Why focus on widows rather than the elderly poor in general?
- Why is widow poverty higher than poverty among married women?
- Does Social Security provide a good deal for women?
- Won't this be very expensive?
- Won't adding new benefits make it harder to achieve the 75-year goal?
- Won't widow poverty disappear on its own as more and more women retire who have had substantial labor market experience over their lifetimes?

MEDICARE (PAGE 28-33)

- Why not Medicare first?
- Why not more for Medicare?

- Isn't this a gimmick to prevent Republicans from giving Americans a tax break?
- Isn't this just giving more money to the elderly?
- When comparing this use of the surplus to marriage penalty relief, aren't you helping more wealthy people?
- What does it mean, that these funds are "protected"? In a unified budget, can't Congress use the Medicare Trust Fund surplus to offset other spending priorities or tax cuts?
- Is the President intending on proposing a prescription drug benefit for Medicare?
- How much would a prescription drug benefit cost? Would it be paid for from the surplus?
- Isn't this getting ahead of the Medicare Commission?
- By putting over $600 billion dollars of taxpayer-produced revenue into Medicare, aren't you just throwing more money at the problem without any long-overdue structural reforms?
- Doesn't this give Democrats in Congress a pass on doing real Medicare reform?
- Why not just raise taxes, as your Medicare Commissioner Bruce Vladeck recommended?
- What is your plan for reforming Medicare? Do you support the Medicare voucher proposal being put forth by the Commission?
- The Medicare Commission is discussing raising the Medicare eligibility age from 65 to 67 -- making it consistent with phase up for Social Security. What is the Administration's position on this?
- What is your position on [graduate medical education reform, Medigap reforms, etc.] that are being considered by the Commission?
- Given the huge new infusion of funds to the Trust Fund, why is your budget proposing $8 billion in hospital cuts?
- If you wanted this proposal to be well received by both parties, shouldn't you have consulted with them prior to unveiling it?

ALTERNATIVE APPROACHES TO SOCIAL SECURITY REFORM (PAGE 34-35)

- Did the President rule out an individual account as part of Social Security?
- Did the President rule out a carve out approach?
- Isn't your USA account simply an individual account plan under another name?
- Aren't you trying to have it both ways by opposing individual accounts as part of Social Security, yet proposing them outside of Social Security?
- Are you against a plan like Martin Feldstein's that invests through individual accounts but uses the proceeds to help the trust fund?

ELIMINATING THE EARNINGS TEST (PAGE 36-38)

- Hasn't Social Security always been a program only for people who are retired? Why change that?
- Won't eliminating the earnings test benefit higher-income people?
- What would the long-run actuarial effect be? Won't this hurt the Social Security system?
- What are the benefits of eliminating the test?
- Would you favor eliminating the earnings test even in the absence of a comprehensive deal on Social Security?
- Isn't it expensive? How will you pay for it?
- Do you intend to eliminate the earnings test at all ages, or just above the normal retirement age?

SOCIAL SECURITY
January 19, 1999

Overall Package

Q: Aren't you spending the surplus for things other than Social Security? Doesn't this violate the President's commitment to save Social Security first?

A:

- Not at all. The President has made clear that the entire budget surplus should be reserved until we have strengthened Social Security, and this framework is consistent with that policy.

- What the President has done in the State of the Union is outline how much of the surplus we should devote to Social Security, and where we would invest the rest. But only when we have put a framework in place to save Social Security would we dedicate the remaining portion of the surplus to Medicare, Universal Savings Accounts, and other long-term priorities.

- We hope that the prospect of making those critical investments provides an incentive for Congress to move quickly on Social Security reform, but we remain committed to saving Social Security first.

Q: Is this your opening bid or a final offer?

A:

- We want to work with Congress to pass a bipartisan plan to reform Social Security and meet America's other long-term challenges. We understand that Congress will have its own ideas about reform and long-term priorities, and that the process must be bipartisan to work effectively. By outlining his own vision for how the surpluses should be invested, the President aims to build momentum for that process.

Q: What happens if we have a recession and surpluses end up lower than forecast?

A:

- Our projections for future economic performance are quite conservative, and over the long term, should account for the usual ups and downs in the business cycle. Over the past six years, our economic assumptions have proven extremely conservative -- growth has consistently been higher and the budget outlook stronger than we originally estimated. This plan is built around that same principle of conservative forecasting.

- In order to ensure that Social Security is secure over the long term, the framework also locks in dollar amounts for the Trust Fund. The amounts are not contingent on the actual size of the surplus -- we propose that they be chiseled in stone today. That ensures that more than $2.5 trillion is locked in for the Trust Fund over the next 15 years.

Q: Why not just spend 100 percent of the surplus on Social Security?

A:

- First of all, until we have strengthened Social Security, the entire surplus is reserved. The President believes that dedicating 60 percent of the surpluses to Social Security, more than $2.5 trillion over the next 15 years, ensures that reform will be balanced around new money, higher rates of return, and tough choices.

- If we can find a satisfactory way to invest a third of those funds in equities, we can extend the life of the Trust Fund to about 2055. We also need to work with Congress to pass a bipartisan plan that also makes the tough but sensible choices to extend the life of the Trust Fund to the year 2075 -- so that every person working today can be certain that their benefits will be there when they retire.

Q: If you think we need only 60 percent of the surplus for Social Security, why don't we just free up the other $2 trillion now?

A:

- We believe that it is crucial to provide incentives for Social Security reform, which the President's strategy does. By not letting anyone touch the surpluses until we have addressed Social Security, the strategy provides an incentive to getting reform done.

- In addition, it may turn out that we need more of the surpluses to get Social Security reform doe that we currently expect. It would be irresponsible to dissipate the surplus before we see how much it actually takes to get reform done.

- Once we have addressed Social Security reform, there are other worthy uses for the surplus -- which the President outlined in the State of the Union --

which we can address only after we have faced up to the long-run challenge of Social Security.

Q: Isn't it irresponsible to be allocating surpluses so far out in the future?

A:

- Any effort to save Social Security necessarily involves making some long-range projections about the future of our economy and our budgets. To be safe, we have used the same conservative approach economic to forecasting that has been the hallmark of the Clinton administration. Every year of the Clinton presidency, those assumptions about future economic and budget performance have proven safe and conservative -- growth has been consistently higher and the budget outlook consistently better than our original forecasts.

- Also, we restrict ourselves to using surpluses over the next 15 years -- even though we are projecting surpluses much further out.

- Sixty percent of the surplus is allocated for Social Security, leaving 40 percent for other priorities. This framework aims to lock in more than $2.5 trillion over the next 15 years for Social Security -- which, if we can find a satisfactory way to invest a third of that money in the market, would secure the Trust Fund for the next 50 years. We also need to work with Congress to pass a bipartisan plan that also makes the tough but sensible choices to extend the life of the Trust Fund to the year 2075 -- so that every person working today can be certain that their benefits will be there when they retire.

Q: Why are you aiming for solvency in 75 years?

A:

- Since the beginnings of Social Security in the Roosevelt administration, policy makers have tried to make sure that the system was on a sound footing for 75 years and beyond.

- Ensuring the solvency of the trust Fund for 75 years means that virtually any worker contributing to Social Security today will receive the retirement benefits he or she deserves. We should be able to tell a 22-year-old who has taken a job and begun contributing to Social Security, that the benefits will be there even if she lives to be almost 100 years old.

Q: Shouldn't you balance the non-Social Security budget?

A:

- The unified budget is the traditional measure used to analyze the budget. It determines the net change in publicly held debt.

- The most important objective for us is to continue raising our national savings rate -- up from 3.1 percent of GDP in 1992 to 7.5 percent now (Q1-Q3 1998), largely because we have eliminated the Federal deficit.

- Under the President's plan the budget surplus's contribution to national savings would increase savings by XX percent of GDP, and the USA account contributions are expected to add another XX percent.

- Higher saving will help us to raise investment and productivity, which will help to prepare for the future -- including the retirement of the baby boomers. And the unified budget reflects the Federal government's contribution to national saving.

Q: **Doesn't your budget use Social Security's own trust fund surpluses to finance new FY 2000 spending? How can you say that you are preserving Social Security when your own budget spends the Social Security surplus?**

A:

- No. The Administration's FY 2000 budget remains faithful to the budget scoring rules, and saves the surplus until the health of Social Security is restored. The Administration's new spending and tax cut proposals are fully offset by reductions elsewhere in the budget. The President's proposals for how to allocate the surplus addresses how the surplus should be used once Social Security reform is secured.

Q: **Can't we just grow our way out of the problem?**

A:

- The Social Security system as a whole is also not particularly sensitive to the growth rate. Higher growth provides more revenue for the system, but also ultimately raises benefits for future retirees. Growth would have to increase to implausibly high rates to address a significant part of the long-run Social Security challenge.

- The current imbalance in the system amounts to 2.19 percent of taxable payroll over the next 75 years. Every 0.1 percentage point increase in growth reduces that imbalance by about 0.1 percent. So even a 0.5 percentage point increase in long-run growth -- which is a relatively large increase by historical standards -- would only eliminate about one-fourth of the long-run problem.

Tax Cuts

Q: Does this plan mean no tax cuts?

A:

- The President's framework dedicates the surplus to meeting America's long-term challenges -- ensuring that Social Security and Medicare are there when we need them, paying down the national debt and giving every working American a chance to have a pension and build a nest egg for their retirement.

- Through the Universal Savings Accounts, the government will return $500 billion to the American taxpayers and allow them to prepare for the future.

- That is the President's vision for what we do with the hard-won surpluses. We understand that Congress may have different priorities, and we expect to hear their ideas in the days ahead. But the President wanted to lead the debate about how we meet America's long-term challenges. And it is important to keep in mind that, before we use a penny of the surplus, we need to pass comprehensive Social Security reform.

Q: But don't the American people deserve a tax cut?

A:

- The American people deserve a government that plans for the future.

- Under the President's framework, nearly 90 percent of our surpluses would be reserved for the long-term challenges of strengthening Social Security, Medicare, and creating new individual pensions. The remainder of the surplus would be reserved for military readiness and other pressing national domestic priorities, such as education and research.

- We think that is a responsible approach to meeting our challenges, and is one that the American people can and will support. We fully expect that others will have different ideas about put this hard-won dividend to use. That topic should be the focus of some debate, but the President has shown leadership by outlining how we can best meet the challenges of the next century.

Q: Senator Domenici has called for dedicating the vast majority of the non-Social Security surplus to tax cuts. Shouldn't taxes beyond what are needed for Social Security be returned to the American taxpayers?

A:

- First of all, the President is committed to reserving the entire surplus until we have acted to save Social Security. We believe that, working with Congress, we can come up with a reasonable, balanced plan to save Social Security by dedicating half of that surplus to the Trust Fund. But that means having to make some tough choices as well so that we can secure the solvency of the Social Security Trust Fund until 2075.

- We understand that some Republicans want to dedicate part of the surplus to tax cuts. It is important to keep in mind that any money that goes to tax cuts is not available for strengthening Medicare, retiring the national debt, and for creating a new individual pension for every American. Our view is that these priorities are the most critical ones, but we anticipate and welcome a full debate on how best to use the surplus to meet America's long-term challenges.

Q: Does your policy on surpluses mean that no new tax cuts or spending initiatives of any kind can be enacted in 1998?

A:

- No, <u>as long as the tax cuts are paid for dollar for dollar</u>. Our policy means that until we have addressed Social Security reform, any new tax cuts or spending initiatives can be enacted only if they are fully paid for. <u>Tax cuts should not use up the surpluses when those surpluses could be needed for Social Security.</u>

- We are open to tax cuts that meet our principles of fairness, simplicity, economic growth, and not hurting our fiscal discipline. Indeed, our budget includes many new tax cuts and spending initiatives. But these are fully paid for. They do not add one dime to the deficit or reduce surpluses by one dime.

<u>National Debt</u>

Q: Won't this plan increase the national debt?

A:

- Thanks to the steady fiscal discipline that President Clinton has restored to Washington, we are now entering an era of surpluses, and we are paying down the debt for the first time in almost 30 years.

- What this framework does is set aside nearly 90 percent of the $4 trillion in budget surpluses over the next 15 years for long-term challenges: Medicare, Social Security reform, and Universal Savings Accounts. By dedicating that money to long-term challenges instead of spending it today, the President is ensuring that we continue on the path of fiscal discipline.

- In fact, the most meaningful measure of debt -- publicly held debt as a share of the economy -- would decline dramatically under this framework. When President Clinton took office, publicly held debt as a share of the economy stood at more than 50 percent and was headed up. Today, that measure has fallen to about 45 percent, and under this framework it will fall to about 8 percent in the year 2014.

Q: What impact will this plan have on savings?

A:

- The President is fully committed to making sure that we use the surpluses to prepare America for the future. That is why, under this framework, the President dedicates almost 90% of the $4 trillion in surpluses we expect over the next fifteen years to our long-term challenges: strengthening Social Security and Medicare for the retirement of the baby boomers, giving all Americans an opportunity to build their own nest egg for retirement, and paying down the national debt.
- By devoting that money to long-term challenges instead of spending it today, the framework builds on our success in increasing national savings. When President Clinton took office, national savings stood at a low 3.1 percent of GDP in 1992 because of the huge deficits the federal government was running. By restoring fiscal discipline to Washington and leading us into an era of surpluses, the President has helped boost national savings -- which has more than doubled during this Administration to 7.5% today.

- Under the President's plan the budget surplus's contribution to national savings would increase savings by x percent of GDP, and the government's contributions to the USA accounts are expected to add another y percent.

- In addition, by encouraging Americans to set aside money for retirement and giving them help, the President's USA accounts will also help boost personal savings.

Q: Hasn't the CBO said that any plans to use the surplus for anything other than paying down the debt actually reduce national savings?

A:

- The President's framework sets aside almost 90 percent of the surpluses we expect for America's long-term challenges -- Medicare, Social Security, and pensions.
- When President Clinton took office, national savings stood at a low 3.1 percent of GDP in 1992 because of the huge deficits the federal government was running. By restoring fiscal discipline to Washington and leading us into an era of surpluses, the President has helped boost national savings -- which has more than doubled during this Administration to 7.5% today.
- Under the President's plan the budget surplus's contribution to national savings would increase savings by x percent of GDP, and the USA account contributions are expected to add another y percent.
- Higher saving will help us to raise investment and productivity, which will help to prepare for the future -- including the retirement of the baby boomers.

Q: What will happen if CBO has a significantly different forecast than OMB's?

A:

- We have used very conservative economic assumptions as we have done in the past. Our estimates have consistently proven reliable -- we have erred on the side of caution. We think that is the best approach, because it ensures that we do not strengthen Social Security and Medicare by relying on rosy scenarios.
- From some press reports about the work CBO is doing now, it appears that we are not that far apart, but we'll have to wait and see.

<u>Surplus Transferred to Social Security</u>

Q: How much of the surplus would be transferred to Social Security?

A:

- Under the President's framework, more than $2.5 trillion of the surpluses we anticipate over the next 15 years would be dedicated to Social Security. By investing a portion of those transferred surplus to achieve higher returns -- just as every state, local, or private pension would -- we can extend the life of the Trust Fund until the mid-point of the next century. We are willing to work with Congress to find a mechanism to ensure that the investments are made by independent private-sector managers without political interference.

Q: Aren't you using surpluses that are generated by Social Security to fund other programs?

A:

- We are not spending a dime of the surplus until we have worked with Congress to pass a plan that strengthens Social Security over the long-term. It is our judgment that we should dedicate half of the surpluses over the next 15 years to do that. But only when we have saved Social Security would we then allocate the rest of the surplus for other long-term challenges -- shoring up Medicare, strengthening our pension system, paying off the debt, and investing in military readiness and other pressing national domestic priorities, such as education and research.

Q: Aren't these transfers to Social Security just an accounting gimmick?

A:

- The President's framework would set aside a full 60 percent of the surpluses to Social Security. By dedicating that money to Social Security and investing a portion of it instead of spending it on some short-term project, we put the Social Security Trust Fund in substantially better shape -- securing its solvency life to the mid-point of the next century.

- This action alone would extend the solvency of the Trust Fund to about 2054. But we need to do more: we want to work with Congress on a bipartisan Social Security plan to extend the life of the Trust Fund until 2075 -- so that every person working today can know that their benefits will be there when they retire.

- We can have an endless debate about the accounting rules, but the bottom line is that by saving the money rather than spending it, we strengthen Social Security.

Q: Does transferring the surpluses to the Social Security Trust Fund have the

same effect as buying down the debt?

A:

- In general, yes. National saving, for example, is higher under either approach -- helping us to raise investment and future productivity. Some of the other effects -- for example, on the longer-run unified budget -- may depend on whether the transfer to the Social Security Trust Fund takes the form of bonds or equities.

Q: **Your plan would take general revenue and put it toward Social Security. But hasn't the Social Security system avoided general revenue funding over its entire history?**

A:

- Not exactly. For example, the system currently receives some of the revenue generated from income taxation of Social Security benefits. Furthermore, the system will face unprecedented challenges with the retirement of the baby boomers.

- We believe that the surpluses can play a key role in helping us to meet that challenge -- by extending the life of the Trust Fund to the mid-point of the next century. We will continue to insist that we not spend the surpluses until we have figured out how to do just that.

Q: **What does "reserving" the surplus mean at this point? Aren't you just paying down the debt with the surpluses?**

A:

- The President believes that before we do *anything* with the surpluses, we should ensure that Social Security is on a firmer long-run footing. Once we have addressed Social Security reform, the President has outlined what other long-term priorities we should address.

- Because surpluses are building up before Social Security reform is accomplished, they are now being used to buy back publicly held debt from the public.

- Remember that buying down the debt raises saving and reduces the burden on future generations. But reserving the surplus pending Social Security reform also helps to raise saving and reduce the burdens implied by the retirement of the baby boomers. The crucial thing is that we should not waste the surpluses, but instead make sure that we are using them to prepare the country for the next century.

[**Background**: Gross Federal debt amounts to about $5.4 trillion. But some of that is held by the Social Security Trust Fund and other government accounts. Debt held by the public amounts to about $3.8 trillion.]

INVESTING PART OF THE BUDGET SURPLUS IN EQUITIES

January 19, 1999

Q: Isn't it risky to have Social Security depending on the stock market performance?

A:

- There is a small element of risk involved, but any risk will be borne by the government system, not individuals.

- The risk to the government is very small. For example, in 2032, 94 percent of retirement benefits will be paid out of payroll taxes or by redeeming Treasury bonds held by the trust fund. That means that just six cents on every dollar Social Security pays out will depend on stock market performance. In other words, even if the stock market went to zero, Social Security could still pay 94 percent of retirement benefits. If we do nothing, though, in 2032, Social Security will only be able to pay 72 percent of a retiree's current law benefits.

Q: What do you assume about how the stock market will grow in the future?

A:

- We use conservative forecasts for stock market growth in the future. We assume that the stock market will perform in the future how it has in the past (between 1959 and 1996). We do not include the benefits of most of the dramatic run-up in the past few years. Our estimate -- 6.75 percent real returns, on average -- is lower than the Social Security Advisory Council, which assumed 7.0 percent real returns. Gramm-Domenci assume that a 60-40 portfolio would earn 5.5 percent real, 0.3 percent higher than our numbers would imply.

Q: What happens if the stock market does worse in the future than it has over the past few years?

A:

- First, our forecasts are conservative: based on the performance of the stock market over the last few decades. This is a significantly more conservative assumption than that used by the Social Security Advisory Council or other plans that try to achieve higher returns from equity investments.

- Second, whether or not the stock market does worse in the future will have little effect on the Social Security system. For example, in 2032, 94 percent of retirement benefits will come from payroll taxes or interest earned from Treasury bonds -- the safest investment in the world. That means that just six cents on every dollar Social Security pays out will depend on stock market performance. In other words, even if the stock market went to zero, Social Security could still pay 94 percent of retirement benefits.

Q: Isn't it un-American for the Government to be owning private assets?

A:

- We want to work with Members of Congress from both sides of the aisle to craft a bipartisan Social Security plan which invests a portion of the surplus transferred to Social Security to achieve higher returns, while ensuring that a mechanism -- is in place to ensure investments are made by independent private-sector managers without political interference.

- We believe that it is possible to ensure that investments are made through private-sectors investment funds just as private, state, and local pension plans do in a way that_
  - -- is independent and non-political
  - -- hires the most efficient private sector management services
  - -- invests using a broad based neutral approach
  - -- minimizes administrative costs

Q: What share of the stock market will the government own?

On average (over the next 40 years), stock owned by the Social Security trust fund will represent about 4 percent of the total stock market.

Q: Won't the government be a major shareholder in corporate America?

The trust funds holding (4 percent of the market) will be half as big as the total holdings of all state and local pension plans (10 percent of the market). They will be roughly as big as the total holdings of Fidelity and other large mutual fund companies.

Q: For how many companies will the government be the largest shareholder?

A:

- We want to work with Members of Congress from both sides of the aisle to craft a bipartisan Social Security plan which invests a portion of the surplus transferred to Social Security to achieve higher returns, while ensuring that a mechanism is in place to ensure investments are made by independent private-sector managers without political interference.

- If we transfer 60 percent of the surplus to Social Security and invest about 25 percent of that amount in the private market, our estimates suggest that Social Security will own about 4 percent of the stock market -- which is less than half the 10 percent of the stock market owned by state and local pensions and about the same amount managed by Fidelity (4 percent).

Q: What is the maximum share of the stock market that the government will own?

A:

- Again, we want to work with Members of Congress from both sides of the aisle to craft a bipartisan Social Security plan which invests a portion of the surplus transferred to Social Security to achieve higher returns, while ensuring that a mechanism -- like the Fed -- is in place to ensure investments are made by independent private-sector managers without political interference.

- Our estimates suggest that at its peak -- in 2020 -- Social Security will own about 6 percent of the stock market -- which is significantly less than the 10 percent of the stock market owned by state and local pensions.

Q: What do these calculations assume?

A:

- The Social Security Actuaries calculated these numbers based on two assumptions: (1) that the ratio of stock market valuation to Gross Domestic Product (GDP) will remain the same as it is today over the long run; and (2) that the stock market will perform in the future how it has in the past (between 1959 and 1996, so we do <u>not</u> include the benefits of most of the dramatic run-up in the past few years).

Q: **How do you intend to protect these investments from political interference?**

A: We want to work in a bipartisan way to invest these funds in a way that is

- -- is independent and non-political
- -- hires the most efficient private sector management services
- -- invests using a broad based neutral approach
- -- minimizes administrative costs

Q: **How will corporate governance issues such as proxy voting be handled?**

A:

- We want to work in a bipartisan way to craft a Social Security plan that addresses the *all* important corporate governance issues.

Q: Where will these funds be invested?

A:

- We want to work these sort of details out with Members of Congress, but we do believe that the funds should be invested in a broad and neutral way by the most efficient private-sector managers in a way that is both independent and without political interference.

Q: Will the funds be invested in international stocks or only in domestic ones?

A:

- Again, this is the sort of detailed question that we need to work out with Congress.

Q: What will prevent politicians from legislating that certain industries, such as tobacco cannot be invested in or that certain activities deserve investment (building low-income housing) or that firms that move jobs overseas or hire child labor do not deserve to be invested in?

A:

- We want to work in a bipartisan way to create an institution which is independent and free of political interference and that uses the most efficient private-sector managers to achieve higher returns for Social Security.
- We believe that the experience of the Federal Reserve shows that it is possible for Congress to create institutions that have minimal political interference. We need to draw on the experiences with the Fed to ensure whatever institution is created to invest Social Security's funds will do so without interference from the executive or legislative branches of government.

Q: Won't there be large administrative costs in this system -- Social Security has very low administrative costs.

A:

- No. This type of proposal should have very low administrative costs -- which is one of the reasons the President supports this concept.

- We believe that by having a Fed-like institution hire the best private-sector managers we will ensure that the competition between the managers will help keep administrative costs very low.

- Estimates suggest that costs could be *only* one-half of one basis point. Therefore, returns will <u>not</u> be going into the hands of Wall Street managers -- they will go to Social Security beneficiaries.

- Moreover, the federal government's Thrift-Saving Plan already puts out for private management a pool of capital of this type, and their costs are very, very, low -- only about 0.4 basis points, or .004% of assets. Thus, for every $1,000 in assets under management, the TSP pays only about 4 cents per year in management fees.

Q: What share of Social Security's portfolio will be in stocks and what share will be in special-purpose Treasury bonds?

A:

- To ensure that Social Security's portfolio is conservatively invested, we will limit the share of Social Security invested in equities to 18 percent. That means that, at most, 18 percent of Social Security's funds will be invested in stocks, while -- at minimum -- 82 percent will be invested in special-purpose Treasury bonds.

Q: Would the Trust Fund investments contemplated under this plan affect prices in the stock market?

A:

- First of all, one of the most important objectives with respect to investing part of the surplus in the stock market is to establish a process that is independent, insulated from political influence, and aimed at securing the best return for the Social Security system.

- Provided that a process of that type is established, the impact on stock prices -- if any -- should be modest, because the scale of investment contemplated here is small relative to the size of the market, and is phased in over a period of many years.

  - Over the next 15 years, if the President's proposal is adopted, purchases of equities by the Social Security system would average about $30 billion per year, measured in today's dollars. By way of comparison, net inflows into equity mutual funds have averaged about $250 (check) billion per year over the past NNN years.

- At the end of the initial 15-year phase-in period, Social Security's holdings of equities will probably amount to less than 5 percent of the overall stock market. By contrast, state and local governments already hold about 10 percent of the stock market in their pension plans as of today.

- Moreover, if there were any sizable move in stock prices in response to the Social Security purchases, businesses would probably issue more stock and less debt; and individuals would probably choose to hold less stock and more debt. Both of these changes would work toward ameliorating any impact of the initial stock purchases by the Social Security system.

Q: If the surpluses are only invested in publicly traded equities, won't this be unfair to small companies?

A:

- One of the issues that we need to work out with Congress is whether the surpluses are only invested in very broad-based indices, so that many small-cap companies will be included in the pool.

- It is true that non-publicly traded companies would not be included, but the Federal government can't force a private company to sell shares publicly, and it would be intrusive to try to do so.

- This does not mean, however, that the privately held companies will be denied capital, because capital is mobile and will migrate to other uses as the government buys publicly-traded shares. Shares of smaller firms may become more attractive.

Q: Isn't this just another form of taxation?

A:

- Because the Trust Fund is "owned" by current and future participants in Social Security, the ultimate owners of the Trust Fund's equity holdings will be the American people. We believe that investing in equities represents an appealing way to help preserve the Social Security system for its ultimate owners, and represents the best stewardship of the resources they have entrusted to us. The alternatives for preserving the system – reducing benefits or a direct tax increase – are much less appealing.

Q: Shouldn't the government use Trust Fund assets to promote urban America / the environment / education?

A:

- The purpose of equity investment of the Trust fund is to protect promised Social Security benefits. We believe that it would be very risky to allow assets to be targeted to specific causes or specific sectors of the economy, or to allow for the introduction of political considerations into the investment of surpluses. We want to work with Congress to ensure that we find a mechanism to provide layers of protection against this.

Q: Are you going to use the trust funds to support share prices in case of a market downturn?

A:

- We believe that the trust fund should invest in a broad and neutral manner, and therefore not have discretion to "time" the market.

- It would be irresponsible to put surpluses at risk in some ill-advised scheme to try to chase after the rainbow of higher stock market returns. What is important is that the surpluses be invested in an independent, non-political manner that focuses on the goal of protecting promised Social Security benefits.

Q: Will you sell stock to improve the budget picture?

A:

- Again, the investment managers who will act on behalf of the Social Security system will have no discretion as to the timing of their purchases or sales of equities. The stock market investments we propose would be pre-committed: Remember that we are proposing to transfer half of the currently projected unified surpluses to the Social Security system over the next 15 years, and -- provided a satisfactory institutional structure can be devised of the type outlined above -- we have further proposed that about one-quarter of that amount be invested in stocks.

- Stocks will be redeemed only as needed to pay benefits. This approach leaves no room for discretion as to purchases or sales.

Q: What would happen during a market downturn? Would the government guarantee the existing benefit structure, by raising taxes? Or would social security benefits be cut?

A:

- The risk introduced by investing part of the surpluses in the stock market will be modest, for two main reasons. First, in the future, the Social Security will continue to pay the bulk of benefits out of current payroll taxes. Only a portion of benefits will be paid for by the Trust Fund, and only a portion of the Trust Fund will be invested in equities.

- Second, the Trust Fund will be in an position to smooth through the ups and downs of the market. Although the Trust Fund will pay for some benefits, only a portion of the Trust Fund would be invested in equities. Therefore, benefits could be paid out of other assets until the stock market recovered. The majority of the Trust Fund would still be invested in the same special-issue government bonds that currently make up the Trust Fund.
- [NEED TO CHECK] There has been no time over the last 100 years when a stock market decline was so severe that it would have posed any threat to benefits under a system of the type we are describing. Even if the worst came to pass, and there was a significant and lasting decline in equity values, this loss would be amortized (in the form of reduced benefits) over an extended future time period.

Q: What has been the experience of state and other governments that have invested in equities?

A:

- Currently, over 45 states (may be 50 states – Econ Policy is checking) invest some portion of their pension funds in equities. Most state boards of trustees appear able to resist politically or socially driven investments, because they have clear fiduciary responsibilities.

- Canada recently decided to invest the Canada Pension Plan (CPP) trust fund in equities, property, and foreign assets. Canada's arms-length board of trustees has fiduciary responsibility to serve CPP contributors' and beneficiaries' interests exclusively. Canada has named a board, but they have yet to undertake any equity investment.

- The Thrift Savings Plan (TSP) for federal employees is managed by the Federal Retirement Thrift Investment Board (TIB). The TIB contracts with Barclays Global Investment to manage the non-Treasury investments. The TIB delegated to Barclays the right to vote the proxy ballots. Moreover, the TIB has not changed any of its investment policies in response to political concerns.

TOUGH CHOICES
January 19, 1999

Q: What types of options are on the table to extend the trust fund's life to 75-years?

A:

- President Clinton believes that we must work together in a bipartisan way to make the tough, but achievable, choices to save Social Security through at least 2075 because the only way that these tough choices will be made is if we work together -- across party lines. Our goal is to ensure a 25-year old who has just entered the workforce will know that even if he or she lives until 100, the system will be able to pay its promised benefits.
- I am not going to get into specific options that could be used to extend the life of the trust fund for at least 75 years, but I will say that we will work with Members of Congress to determine which we can agree upon

Q: Would the President consider raising the retirement age (similar questions on COLAs, tax increases, benefit cuts)?

A:

[Framework for Answer]
- The President believes that rather than ruling in or out specific elements, we should work together with Democrats and Republicans to craft a package that meets the President's principles; strengthening Social Security in a way that maintains universality and fairness, ensures that Social Security continues to provide a benefit people can count on, protects low-income and disabled beneficiaries, and maintains our fiscal discipline.

[For Retirement Age]
- Changing the retirement age is clearly a controversial option that is being actively debated by many people in the Social Security reform debate.

[For COLA]
- The issue of whether we should change the COLAs in order to better reflect the cost-of-living is a legitimate one, but one that needs to resolved by experts. The Administration is strongly committed to using the most technically accurate index.

[For Tax Increases]
- The President has said very clearly that he believes that we do not have to

increase the payroll tax rate as part of a comprehensive plan.

Q: Are you trying to achieve 75-year solvency or are you trying to do more?

A:

- Our goal is to save Social Security until at least 2075. That means that if we save Social Security for a longer period of time, we will be very pleased.

Q: If we only do 75 years, won't we have to do reform again in a few years?

A:

- If we save Social Security until at least 2075, we will ensure that a 25-year old who has just entered the workforce will know that even if he or she lives until 100, the system will be able to pay its promised benefits.

- We only transfer half of our projected budget surpluses to Social Security for 15 years. If -- sometime in the next century -- reform is needed again, policy makers will be able to evaluate the best steps to take at that point to strengthen Social Security further.

Q: Why didn't the President show leadership by proposing specific benefit cuts and tax increases?

Q: Isn't the President proposing all of the easy good news and leaving the pain for later?

A:

- Over the past year, the President has led by changing the debate on Social Security in two important ways: first, by reserving the surplus until Social Security is reformed and second, by striving to create a climate conducive to bipartisan Social Security reform by not attacking specific plans to reform the system.

- In his State of the Union address, the President put forward a framework to keep Social Security safe for 50 years -- now he wants to work together with Members of Congress from both parties to make the touch choices to keep Social Security safe until at least 2075. And the only way these tough, but achievable, choices will be made is if we do it together -- across party lines.

Q: What kind of process do you envision to try to get reform done?

A:

- We will be consulting with the Leadership and Members of Congress in the days ahead on how best to proceed. But we fully intend to begin a constructive bipartisan process as soon as possible.

Q: Would the President be satisfied with protecting Social Security for 50 years?

A:

- No. As the President said in his State of the Union address, his goal is to save Social Security for at least 75 years.

REDUCING THE POVERTY RATE OF ELDERLY WOMEN

January 19, 1999

Q: What does the President plan to do to reduce poverty among elderly women?

A:

- In his State of the Union address, the President said that his goal was to craft a plan to reduce the poverty rate among elderly women -- particularly widows. In 1997, the poverty rate of elderly widows was 18.0 percent -- nearly four times higher than the 4.6 percent rate for elderly married women.

- The President wants to work with Members of Congress to find the appropriate proposal -- but there are clearly ways to strengthen Social Security and significantly lower poverty among elderly women.

Q: Why focus on widows rather than the elderly poor in general?

A:

- Social Security has dramatically reduced the rate of poverty among the elderly. The elderly poverty rate has fallen from more than 35 percent in 1959 to 10.5 percent in 1997 -- as low as it's ever been.

- However, the poverty rate among elderly widows is particularly high: 18.0 percent in 1997 -- nearly four times higher than the 4.6 percent rate for elderly married women.

- Moreover, elderly unmarried women -- including widows -- get 51 percent of their total income from Social Security. Unmarried elderly men get 39 percent, while elderly married couples get 36 percent of their income from Social Security.

- For 25 percent of unmarried women, Social Security is their only source of income, compared to 9 percent of married couples and 20 percent of unmarried men.

- And without Social Security benefits, the elderly poverty rate among women would have been 52.2 percent and among widows would have been 60.6 percent.

Q: Why is widow poverty higher than poverty among married women?

A:

- There are four reasons why widow poverty is higher than poverty among married women:

  1. *Declines in Social Security Benefits at Widowhood.* Widow benefits vary from 50 to 67 percent of benefits for a married couple. The official poverty thresholds imply that a widow needs 79 percent of a couple's income to maintain her pre-widowhood consumption level. Thus, women who are in couples just above the poverty line, can fall below the line when they become widowed. Empirical studies suggest that this factor can explain as much as half of the excess in poverty among widows.

  2. *Pre-Widowhood Differences in Economic Status.* Poorer husbands typically do not live as long as richer husbands. Therefore, at a given age, women who are widowed are more likely to have been poor throughout their lives than are the women whose husbands have not yet died. Empirical studies conclude that this fact explains around one third of the difference in poverty rates between married women and widows.

  3. *Declines in Pension Income at Widowhood.* Research using data from the 1970s implies that roughly 15 percent of the gap in poverty between widows and married women can be explained by the loss of the husband's pension income. However, these data predate the Retirement Equity Act of 1984 which was designed to encourage the choice of a pension with survivorship rights.

  4 *Declines in Income from Other Assets at Widowhood.* Some assets may be bequeathed to people other than the widow or used for medical or other expenses when the widow's spouse dies. Empirical evidence suggests that the decline in other asset income is responsible for about 10 percent of the difference in poverty rates between widowed and married women.

Q: Does Social Security provide a good deal for women?

A:

- Women face greater economic challenges in retirement for a number of reasons: first, women tend to live longer: a woman who is 65 years old today can expect to live to 85, while a 65 year old man can expect to live to

81; second, women have lower *lifetime* earnings than men do; and third, women reach retirement with smaller pensions and other assets than men do.

- However, the current Social Security system has a number of features that help women meet these challenges.

  1. Social Security provides an inflation-protected benefit that lasts as long as you live. Since women tend to live longer than men, they are in greater danger of outliving their other sources of retirement income; but it is impossible to outlive one's Social Security benefit.

  2. The progressive benefit formula provides a higher replacement rate for workers with lower earnings. For the median female retiree, Social Security replaces 54 percent of average lifetime earnings, compared with 41 percent for the median male.

  3. Social Security provides extra benefits to spouses with low lifetime earnings. The Social Security spousal benefit helps many women, even if they did not work at all outside the home.

  4. Social Security provides benefits to elderly widows; 74 percent of elderly widows receive benefits based on the earnings of their deceased spouse.

  5. Social Security provides benefits to spouses of any age who care for children under 16 if the worker (other spouse) is retired, becomes disabled, or dies; women represent 98 percent of recipients receiving benefits as spouses with a child in their care.

Q: Won't this be very expensive?

Q: Won't adding new benefits make it harder to achieve the 75-year goal?

A:

- The President's goal is to strengthen Social Security for the 21st century. Part of that goal is ensuring that we ensure Social Security is safe for at least 75 years, but part of that goal is also to ensure that Social Security is the strongest safety net possible.

- The President and Vice President believe strongly that taking steps to address poverty among elderly women -- especially widows -- will make the Social Security system stronger and is thus worth it.

Q: Won't widow poverty disappear on its own as more and more women retire who have had substantial labor market experience over their lifetimes?

A:

- Even with increased labor market experience among women, Social Security will continue to be very important. While it is true that the percentage of women receiving benefits based solely on their own earnings history is expected to rise from 37 percent today to 60 percent in 2060, this means that 40 percent of women will continue to receive benefits based on their husband's earnings.

- Women are expected to continue to have longer life expectancies than men -- and thus, Social Security will continue to remain important to them. The difference in life expectancy at age 65 between men and women will fall only slightly under Social Security Administration projections from a gap of 3.6 years today to 3.4 years in 2030. Thus, in the future, women will continue to depend on Social Security for more years than men will.

MEDICARE
January 19, 1999

Surplus for Medicare

Q: Why not Medicare first?

A:

- Both Social Security and Medicare face significant demographic challenges. And the President believes that we must address both issues to ensure retirement security for future generations.

- However, the bipartisan Medicare Commission is still examining the program's long-run challenges. Once the Medicare Commission reports back this spring, that will be a top priority too and we hope our plan with new resources for Medicare will help achieve broader, bipartisan reforms.

Q: Why not more for Medicare?

A:

- This President's plan creates an important safeguard for Medicare -- it would extend the life of its Trust Fund to 2020 -- the largest single improvement in its history. The President underscored his preference that the Medicare Commission and Congress include these dedicated dollars as part of broader reforms to modernize and better prepare Medicare for the health care needs of the 21st century.

Q: Isn't this a gimmick to prevent Republicans from giving Americans a tax break?

A:

- Absolutely not. This proposal recognizes the indisputable financing crisis that faces Medicare and takes an essential step towards solving it. It is true that some may value tax cuts over Medicare, but even the most ardent supporters of tax cuts do not contest that Medicare presents one of the greatest financing challenges in the next century.

Q: Isn't this just giving more money to the elderly?

A:

- In fact, the same generation -- the baby boomers -- that has helped create this surplus is going to need it when they retire and are covered by Medicare. By taking this action, the President is ending the need in the foreseeable future to look for new revenues from younger generations.

Q: When comparing this use of the surplus to marriage penalty relief, aren't you helping more wealthy people?

A:

- No. First, the elderly tend to have less income than working married couples. The Congressional Budget Office found over 80 percent of couples benefitting from marriage penalty relief would have income above $50,000 -- about 75 percent of the elderly report income of less than $25,000. Second, in the absence of immediate action, both the younger and older generations would almost inevitably pay more in the future. If Medicare becomes insolvent, the pressure to both raise beneficiary payments and increase taxes on working families would likely be overwhelming.

Q: What does it mean, that these funds are "protected"? In a unified budget, can't Congress use the Medicare Trust Fund surplus to offset other spending priorities or tax cuts?

A:

- The President's framework would prohibit the funds being transferred to the Medicare Trust Fund from being allocated to other uses. We look forward to working with Congress to develop budget rules to ensure that fiscal discipline in maintained.

<u>Prescription Drug Benefit</u>

Q: Is the President intending on proposing a prescription drug benefit for Medicare?

A:

- The President believes that any proposal to provide a long-overdue prescription drug benefit should take place within the context of broader Medicare reform. He does believe, however, that a meaningful prescription drug benefit for all beneficiaries can and should be included in any such proposal. We have learned that successfully achieving meaningful Medicare reform can only happen in a bipartisan fashion. For this reason, we look forward to working with members on both sides of the aisle to add this important benefit this year.

Q: How much would a prescription drug benefit cost? Would it be paid for from the surplus?

A:

- The President did not propose a Medicare prescription drug benefit -- he committed to working with Congress on such a proposal after the Medicare Commission report, which is due on March 1. At that time, when a full range of reform options are on the table, the costs as well as funding for this benefit can be figured out.

Medicare Commission

Q: Isn't this getting ahead of the Medicare Commission?

A:

- No. The Medicare Commission has spent all of its time to date examining complicated and important ideas for restructuring Medicare. It has not assessed ideas for new revenues for Medicare -- although the need for such revenues is evident from the sheer size of the problem and has been affirmed by virtually every independent health policy expert. The President's proposal has great potential to assist the Commission to make proposals to modernize the program without gimmicks or unrealistic growth rates that would new revenues. Indeed we think it will make a positive contribution toward achieving bipartisan consensus on this important issue.

Q: By putting over $600 billion dollars of taxpayer-produced revenue into Medicare, aren't you just throwing more money at the problem without any long-overdue structural reforms?

A:

- Virtually all independent experts confirm that demographics and health costs require more financing. All the structural reforms in the world won't change this fact. However, the President cannot be more clear about the fact that he wants this proposal to be considered in the context of broader reforms.

Q: Doesn't this give Democrats in Congress a pass on doing real Medicare reform?

A:

- Absolutely not. As experts like Bob Reischauer have said, Medicare reform is not only about solvency -- it is about making Medicare more efficient, equitable, and adequate in terms of benefits. This move by the President should allow the Medicare Commission and Congress in general to focus on these critical objectives rather than worry about Trust Fund solvency alone.

Q: Why not just raise taxes, as your Medicare Commissioner Bruce Vladeck recommended?

A:

- The President's approach is more progressive than raising payroll taxes. Today's surplus comes from the strength of the economy and the restraints on government spending that the President and Congress have imposed. In fact, it is mostly generated by the same baby boom generation whose retirement we are preparing for.

Q: What is your plan for reforming Medicare? Do you support the Medicare voucher proposal being put forth by the Commission?

A:

- The President and the Congress created the Bipartisan Medicare Commission in recognition of the complexity of addressing Medicare's problems. He believes it would be premature and inappropriate to contemplate any plan prior to the conclusion of the Commission's work.

<u>Follow-up:</u> What do you think of the premium support / voucher proposal that the Commission is considering?

A:

- "Premium support" is actually not a voucher program -- it contains a guarantee of a defined set of benefits, which is unlike the voucher proposals that the President has opposed in the past. It is a concept worth considering but, as with any initiative, the devil is in the details. Depending on how it is constructed, a premium support program could strengthen -- or alternatively could weaken -- the Medicare program. We look forward to hearing more about exactly what the Commission has in mind over the next few weeks.

Q: The Medicare Commission is discussing raising the Medicare eligibility age from 65 to 67 -- making it consistent with phase up for Social Security. What is the Administration's position on this?

A:

- As we have consistently stated, we would be seriously concerned about raising the Medicare eligibility age, particularly in the absence of a mechanism to assure this does not increase the number of uninsured Americans. Recent data reaffirm Americans between ages 55 and 65 are the most rapidly growing group of uninsured Americans and are some of the hardest to insure. Americans ages 65 to 67 could face similar problems. But we, of course, look forward to seeing any analysis of this issue developed by the Commission.

<u>Follow-up:</u> Would your Medicare buy-in proposal make it possible to raise the eligibility age?

A:

- The President's plan is designed to assure that vulnerable Americans ages 55 to 65 have access to insurance, but it does not subsidize their health care costs. By contrast, people over 65 in the Medicare program receive subsidies for much of their medical costs. Therefore, any move to increase the eligibility age would have to be combined with additional policy to assure the availability of access to affordable coverage.

Q: What is your position on [graduate medical education reform, Medigap reforms, etc.] that are being considered by the Commission?

A:

- The President and the Congress created the Bipartisan Medicare Commission in recognition of the complexity of addressing Medicare's problems. He believes it would be premature and inappropriate to contemplate any specifics prior to the conclusion of the Commission's work.

<u>**Miscellaneous**</u>

Q: Given the huge new infusion of funds to the Trust Fund, why is your budget proposing $8 billion in hospital cuts?

A:

- The Administration has an ongoing fiduciary and management responsibility to ensure that Medicare payments are fair, adequate and not excessive. The President's proposal for the surplus in no way changes this responsibility. For this reason, the President has already announced a multi-billion dollar, anti-fraud, waste and abuse Medicare program integrity proposal. His budget will contain additional proposals.

Q: If you wanted this proposal to be well received by both parties, shouldn't you have consulted with them prior to unveiling it?

A:

- This is the beginning of a process. The President is unveiling a proposal that he thinks addresses numerous challenges facing an aging America. He well understands that the next steps require significant consultation and bipartisan collaboration, and he hopes that the initiative that he is unveiling today will create an environment to that end.

ALTERNATIVE APPROACHES TO SOCIAL SECURITY REFORM

January 19, 1999

Q: Did the President rule out an individual account as part of Social Security?

A:

- The President will examine any proposal in the context of comprehensive reform that is consistent with his five principles. There are difficult issues with individual accounts that have not yet been worked out -- for example, what are the administrative costs, what are the risks to people, and would they would provide beneficiaries a solid progressive benefit that they could count on. Also, how do individual accounts relate to the non-retirement aspects of Social Security, specifically disability and survivor benefits.

Q: Did the President rule out a carve out approach?

A:

- Yes, the President has ruled out "carve-out" individual accounts. As the President said in his State of the Union address, we should not divert Social Security payroll taxes into untested and risky individual accounts.

Q: Isn't your USA account simply an individual account plan under another name?

A:

- No. The President has spoken eloquently over the past year about the need to strengthen each of the three legs of the retirement security stool: Social Security, pensions, and personal savings.
- Our Universal Savings Accounts (USAs) proposal would help individuals who do not have pensions save for their retirement -- strengthening the pension and personal savings legs of retirement security.

Q: Aren't you trying to have it both ways by opposing individual accounts as part of Social Security, yet proposing them outside of Social Security?

A:

- No, we are not trying to have it both ways. USA accounts are not part of Social Security -- they will help strengthen our pension system and private savings. The President's goal is to ensure retirement security for future retirees and the proposal he put forward in his State of the Union address strengthens the three legs of retirement security: Social Security, pensions, and private savings.

Q: Are you against a plan like Martin Feldstein's that invests through individual accounts but uses the proceeds to help the trust fund?

A:

- There are serious difficult issues with individual accounts that have not been worked out -- for example, what are the administrative costs, what are the risks to people, and would they would provide beneficiaries a solid progressive benefit that they could count on.

- The President will examine any proposal in the context of comprehensive reform that is consistent with his five principles.

ELIMINATING THE EARNINGS TEST

January 19, 1999

Q: Hasn't Social Security always been a program only for people who are retired? Why change that?

A:

- When Social Security was first set up, the nation was in the midst of the Great Depression. Policy-makers were concerned that older workers would impede the labor market prospects of younger workers -- a concern that we certainly don't share today, with an unemployment rate of 4.3 percent.

- Over time, as policy-makers realized that elderly workers had an important role to play in the labor market, the rules for the earnings test have been liberalized.

  - For example, the 1950 Amendments then raised the exempt amount and excluded beneficiaries aged 75 and over from any limit whatsoever.

  - Later statutes allowed partial rather than full reduction of benefits (1954 and 1972 Amendments), exempted those aged 70 and over (1954 and 1977 Amendments), indexed the exempt amounts (1972 Amendments), and created separate limits for those under and over age 65 (1977 Amendments).

  - In 1996, working with both Democrats and Republicans in Congress, President Clinton signed into law annual increases in the earnings limit for those between 65 and 70. Between 1999 and 2002, the limit for workers in this age range will increase from $15,500 to $30,000.

- At this point, the earnings test is a tattered relic of a past era -- and is unnecessary in our dynamic economy. Administering the test is complicated, and it confuses beneficiaries while also discouraging them from work. A recent academic study has suggested that eliminating the earnings test could raise labor supply among elderly workers by over 5 percent.

Q: Won't eliminating the earnings test benefit higher-income people?

A:

- Not necessarily. Under the earnings test, benefits are reduced while working but then subsequently increased using an actuarial adjustment. Those who claim that eliminating the earnings test will benefit upper-income workers are only looking at the first part of that equation and are ignoring the second part.

- In fact, it is possible that upper-income people gain on average from the current system, and therefore that its elimination will be progressive. The reason is that upper-income people tend to have longer life expectancies than average. They therefore collect the subsequent benefit increase -- which is calculated assuming *average* life expectancy -- for longer than average, potentially producing a gain.

Q: What would the long-run actuarial effect be? Won't this hurt the Social Security system?

A:

- Since benefits forgone are given back through subsequent actuarial adjustments, eliminating the earnings limit would have almost <u>no effect</u> on the long-run actuarial balance of the OASDI program. According to the Social Security actuaries, removing the earnings test for all retirees would <u>not</u> significantly affect the 75-year actuarial imbalance. The precise impact -- whether it is 0.01 percent of payroll or 0.00 percent of payroll -- depends on the details of how the earnings test is eliminated. But it's clear that the effects will be minimal.

Q: What are the benefits of eliminating the test?

A:

- *Eliminating the test could encourage work among the elderly.* Most beneficiaries view the earnings test as a tax on their work -- and eliminating it should therefore encourage more of them to work. A recent academic study from the National Bureau of Economic Research (NBER) concluded that eliminating the earnings test could increase labor supply among elderly beneficiaries by 5.3 percent. [Leora Friedberg, "The Social Security Earnings Test and Labor Supply of Older Men," in James Poterba, *Tax Policy and the Economy*, 1998.]

- *Eliminating the test would reduce the administrative burden on SSA.* The Social Security earnings test involves a very complicated set of rules regarding exempt earnings amounts, the benefit reduction rate, and subsequent benefit adjustments. Administering the complicated rules for the earnings test imposes a significant administrative burden on the Social Security Administration. As leading scholars Gene Steuerle and Jon Bakija argue , "Eliminating the earnings test...[would] greatly simplify the administration of the system, since the earnings test is the largest source of errors in benefit calculations." [Eugene Steuerle and Jon Bakija, *Retooling Social Security for the 21st Century*, 1994, pages 228-229.]

- *These benefits do not come at any long-term cost.* According to the Social Security actuaries, removing the earnings test for all retirees would not significantly affect the 75-year actuarial imbalance.

Q: Would you favor eliminating the earnings test even in the absence of a comprehensive deal on Social Security?

A:

- Our goal is to get a comprehensive Social Security plan. I don't want to answer hypothetical questions.

Q: Isn't it expensive? How will you pay for it?

A:

- Let's separate two costs: one for Social Security, and the other for the budget.

  Social Security Actuarial Balance: Since benefits forgone are given back through subsequent actuarial adjustments, eliminating the earnings test would have almost no effect on the long-run actuarial balance in Social Security.

  Budget: Over the long run, eliminating the earnings test would similarly have no effect on the budget. In the short run, any near-term costs would need to be offset in the context of putting together bipartisan, comprehensive reform.

Q: Do you intend to eliminate the earnings test at all ages, or just above the normal retirement age?

A:

- That remains to be determined. The President is determined to eliminate artificial barriers to work for elderly Americans, but some analysts have raised concerns about eliminating the earnings test below the normal retirement age. We will be carefully studying that issue.

Background:

- Some analysts are concerned that eliminating the test below the normal retirement age will induce even more beneficiaries to elect early, reduced benefits -- potentially causing problems for those beneficiaries later in life when they must live on reduced benefits. We will be carefully studying that issue, and determine whether the earnings test should be eliminated only above the normal retirement age, or both above and below it.

PRINCIPLES FOR INSULATING PUBLIC INVESTMENT IN PRIVATE EQUITIES

By investing a portion of the new transfers reserved for Social Security in private equities we can achieve higher returns for Social Security, and extend the life of the Social Security trust fund to 2055. This action does, however, raise understandable concerns about the possible extension of political influence on investment decisions and the risks that this might pose to the economy. Any system of collective investment can and must address these concerns.

That is why we will work with Congress to design a system that observes six core principles.

Collective Investment Must Be:

1. **Private Sector Managers Selected by Competitive Bidding.** Social Security beneficiaries deserve the same efficient management and market returns that people receive in their private pensions and personal savings. The actual investments should be managed by private sector money-managers selected by competitive bidding.

2. **Independently Managed and Non-political.** There would need to be wholly independent oversight of investment that was insulated from political influence. The choice of investment managers should be done by an independent board whose sole responsibility would be to pick fund managers so as to maximize the performance of the investments. This would ensure that the investment of funds was carried out with zero government involvement.

3. **Limited.** The share of Trust Fund assets invested in equities ought to be kept at a very modest level -- both to limit risk to the Fund and to ensure that collective investments never account for more than a small fraction of the stock market as a whole.

   - Under the President's proposal, total investment in private equities would peak at just 15 percent of Trust Fund assets during the next fifteen years. and account for around 4 percent, on average, of the US stock market

   - This market share would be less than half the share accounted for today by State and local government pension plans.

   - The market share would be roughly the same as Fidelity's current market share.

4. **Broad-based, Neutral, and Non-discretionary.** Assets should be invested proportionately in the broadest array of publicly listed equities, with no room for discretion in adding or deleting companies and no room for active involvement in corporate decisions. Neither the government nor the private sector managers it selects to undertake investment on its behalf should be involved in "stock picking." As a shareholder the Funds should be entirely passive, possibly with a mandate to vote proxies in the same proportions as other shareholders. Alternatively, if the investments were spread among a number managers so that no one manager had a large share of the total market, the managers could vote the shares in the interests of the share holders, just as mutual fund managers do today.

5. **No Market Timing or Stock Picking.** In essence, the managers should be on autopilot in investing the funds. They should have little or no discretion in the investment of Trust Fund assets -- so they cannot "time the market" or pick individual stocks.

6. **Lowest-cost.** Collective investment needs to be administratively simple and achieved at the lowest available cost -- both to obtain the highest possible returns and to further enhance the system's transparency and independence.