



SOCIAL SECURITY

Office of the Commissioner

April 12, 1995

TO: Molly Brostrom
FROM: Brian Coyne
RE: Commissioner Chater's Response

Attached is a copy of Commissioner Chater's response to Senator Packwood's questions following her confirmation hearing. I sent a copy to Jeremy as well.

Attachment



THE COMMISSIONER OF SOCIAL SECURITY
WASHINGTON D.C. 20201

March 28, 1995

The Honorable Bob Packwood
United States Senate
Washington, DC 20510

Dear Mr. Chairman:

Thank you for the opportunity to respond to your questions regarding Social Security. Social Security has enjoyed a long history of bipartisan support, and I look forward to working with you and your Committee to ensure the success of the program for generations to come.

As you are aware, in 1994 the Social Security Trustees forecast that the Old Age and Survivors Insurance and Disability Insurance (OASDI) Trust Funds would not be exhausted until the year 2029. I refer to the Trustees forecast to make two important points: Social Security reforms should be designed to address long-term issues in the program and the current debate on the Federal Budget is not the best forum for dealing with these long-term issues. As the Trustees stated in their most recent report, the Social Security program is sound for many years to come. Any changes to the program should be designed to address the long-term operation of the program; an atmosphere where potentially rash and hasty decisions could be made should not be created when no short-term crisis exists.

Reforms of the Social Security program should be designed to ensure the program's adequacy for future generations. Social Security is not a short-term Federal deficit problem. Indeed, Social Security currently more than pays its own way. Reforms to the Social Security program should be made with the sole objective of strengthening the program over the long-term, not for achieving short-term budgetary goals.

This is not to say that reforms should be delayed until a crisis occurs--they should not. Any changes made in the program should occur well in advance of a crisis so that changes will be incremental and allow time for individuals to make necessary changes in their retirement plans. But as past successful efforts to reform the program have shown, changes should be made to improve the long-term standing of the program only after a

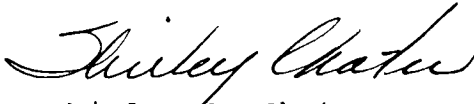
The Honorable Bob Packwood
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The Advisory Council on Social Security is reviewing a number of different proposals for improving the Social Security program and the new Social Security Advisory Board will also be looking at these important issues. It would be premature to endorse specific Social Security reform proposals at this time; rather I would prefer to work with Congress to help create an atmosphere where a bipartisan debate on the future adequacy of the proposals can occur. All of us with a role in this debate have found ourselves, far too often, bogged down trying to defend individual policy options. Opposition inevitably coalesces against individual issues and proposals and becomes counterproductive to the entire debate. It would make little sense for me to advocate individual options which only detract from helping to create an environment necessary for moving forward with meaningful reform. The Administration and Congress together need to establish a climate in which ideas to strengthen Social Security for the long term can be developed and considered without getting trapped into single issue skirmishes.

Again, thank you for the opportunity to respond to your letter. Answers to your specific questions are attached. I look forward to working with you to strengthen the Social Security program for future generations of Americans.

Sincerely,


Shirley S. Chater
Commissioner
of Social Security

Attachment

1. In your testimony you talked about protecting the public's trust and investment in Social Security. What reforms do you propose to accomplish this goal?

First, let me clarify what needs to be protected. The Social Security program in which the American people have invested their trust and their money is among the most popular and most effective government programs ever created. It maintains that popularity because it is a universal program of social insurance, a program in which virtually all Americans have a stake. Its universality enables us to have a system in which the revenues generated by working Americans provide the resources with which old age, survivors and disability insurance protection can be extended to every eligible citizen.

The program is effective because it has always embodied the principles of individual equity and social adequacy. The individual equity aspects of Social Security are that work brings access to benefits, and the level of earnings during one's working years determines the level of benefits eventually received. The social adequacy aspects of Social Security are displayed in replacement rates, meaning the percentage of a worker's earnings that Social Security benefits replace, and in the payment of benefits to workers' dependents. Those who worked for low wages during their working years receive higher replacement rates than high-income workers. It can also be said that the disability and survivors insurance programs reflect social adequacy, ensuring that people who suffer great misfortune are not left without income.

When I spoke in my testimony about protecting the public's trust and investment in Social Security, I was speaking of the Commissioner's leadership role in protecting these principles. I believe strongly that it is the Commissioner's responsibility to aggressively advocate and defend these defining characteristics of the program -- its universality, its individual equity, its social adequacy. To fulfill this duty is not so much a matter of advocating reforms of policy, as much as it is correcting the misconceptions and misunderstandings that exist regarding Social Security.

There are two primary ways in which I fulfill my responsibility to protect the public's trust. First, by speaking out clearly and forcefully against proposals that would undermine or weaken the basic principles upon which the Social Security program is based. I have done so repeatedly, for example, when various individuals and organizations have proposed that Social Security be subject to means testing. In speeches and interviews, I have made it clear that means testing would violate the fundamental principles upon which Social Security is based, that people who work and pay Social Security taxes will receive the benefits the program provides.

Second, one of the most important ways in which the Commissioner

can protect the public's trust and investment is through education. The Commissioner of Social Security, in order to maintain the public support that is critical to Social Security's long-term viability, must help skeptical citizens of all ages understand the value of the Social Security program to their lives and to the citizenry at large. Among young people, in particular, confidence in Social Security is very low. They see FICA taxes taken from their paychecks and fear they will not receive benefits, or will receive significantly less benefits than current beneficiaries. This creates a potentially dangerous situation. Already, some organizations that claim to represent young and middle-aged citizens are characterizing Social Security as a program that enriches the elderly by depriving the young. This concerns me greatly. Social Security has always been a model of intergenerational cooperation. It should not become the subject of intergenerational warfare. I do not want to see strife between generations undermine the effectiveness of a program that has kept more citizens out of poverty than any other in our country's history, and that has helped millions upon millions of people live their lives with independence and dignity.

I am working to help citizens of all ages understand the full spectrum of Social Security benefits -- retirement, disability, survivors insurance -- that protects young and old alike. By doing so, we can better protect the program's defining principles and the broad-based support that Social Security has historically enjoyed. This effort is absolutely necessary if we are to begin establishing a public consensus concerning the program's future.

2. In your testimony, you said "we need to lay out the options that will enable us to strengthen Social Security's long-term solvency." Who is the we and the us you are talking about? What are the options? As the current Commissioner of the Social Security Administration, what options are you considering? Which option do you prefer?

The "we" to which I was referring is the Congress and the Executive Branch, including the Social Security Administration. It is critical that this nation's leaders -- Republicans and Democrats, executive and legislative branches -- develop the trust and capacity to discuss Social Security in a productive, visionary, bipartisan manner. Senator Dole, in 1983, credited the success of the Greenspan Commission to the "willingness of the President and the Speaker of the House of Representatives to endorse the package and, in a bipartisan way, to remove politics, partisan politics from consideration of Social Security."

When I speak of the "we" who need to be able to assess Social Security openly and honestly, I am speaking of the President of the United States, the Majority and Minority Leaders of the U.S. Senate, the Speaker of the House and the House Minority Leader,

the Chairs and members of the Senate Finance Committee and the House Ways and Means Committee, the Commissioner of Social Security and other relevant Executive Branch officials. We need to be able to go together before the American people and discuss, in a bipartisan voice, what needs to be done to strengthen Social Security for the long term.

I have established as one of my primary goals as Commissioner the rebuilding of public confidence in Social Security. I directed that a comprehensive plan be developed to involve the Social Security Administration and several national advocacy organizations in a coordinated effort to raise the American people's awareness concerning Social Security, its value and its future.

The next step was the establishment of the Advisory Council on Social Security, which is currently working toward the scheduled summer release of its report. It is impossible to overstate the importance of the work being done now by the Advisory Council. No major reform of Social Security has ever taken place without being preceded by recommendations from the Advisory Council on Social Security or a similar bipartisan panel.

That was true nearly 50 years ago when the 1937-38 Advisory Council made recommendations that resulted in what is still the basic structure of the Social Security program, adding dependents and survivors benefits and making benefits more adequate. It was true approximately 45 years ago when the 1947-48 Advisory Council recommended changes, which became law in 1950, that made it clear Social Security would be a social insurance program rather than a welfare-type program. The recommendations included significant benefit increases, expanded coverage, and an extension of the program to include disability benefits.

It was true 30 years ago, when the 1965 Council recommended the creation of the Medicare program, and it was true 16 years ago when the 1979 Council, among other recommendations, suggested the taxation of Social Security benefits. And, of course, we know very well the historic accomplishments of the National Commission on Social Security Reform, the Greenspan Commission, in designing the recommendations that became the 1983 Social Security amendments passed by Congress. It is clear that citizens advisory councils have, since the inception of Social Security, played a critical role in the development of the program.

Working with Secretary Shalala, I made certain that the current Advisory Council is bipartisan and encompasses different viewpoints on Social Security (witness, for example, the participation of both Robert Ball and Carolyn Weaver, two of the nation's most renowned experts on Social Security, but with disparate views about the program). It also reflects demographic diversity -- its members ranging in age from 80 to the 25-year-

old mayor of Baldwin Park, California -- and a diversity of experience from labor, business, academia and government. It is a very capable Advisory Council, headed by Professor Edward Gramlich, director of the Institute of Public Policy Studies at the University of Michigan. He is a former Deputy Director and Acting Director of the Congressional Budget Office.

When I met with the Advisory Council members, I emphasized the importance of the primary task with which they are charged to focus on Social Security financing and to develop recommendations for improving the long-range financial status of the OASDI program.

Among the specific issues the Advisory Council is discussing are income distribution trends and the implications for retirement income security, adequacy and equity of Social Security benefits, the consumer price index and its effect on benefit adjustments, demographic issues concerning the baby-boom generation and beyond, and the Social Security Disability Insurance program. They also have two technical panels of experts, one reviewing the assumptions and methodology used to project the future financial status of the OASDI program, the other analyzing the relative roles of the public and private sectors in providing retirement income.

The Advisory Council is close to completing its work on these issues. At this point, the panel has finished compiling a list of possible options to rectify Social Security's long-range fiscal imbalance. Next the Advisory Council plans to arrange different combinations of options to achieve their desired objectives. This has been a very public process, involving open hearings in cities across the country. Senator Kerrey testified at these hearings, as did former Congressman Pickle. Many individuals and representatives of advocacy organizations have participated in the hearings. After the Advisory Council has finished its work, I look forward to discussing its findings and recommendations with you and your colleagues.

3. In 1994, Congress had to reallocate a portion of the FICA tax from the OASI Trust Fund to the DI Trust Fund to prevent the disability fund from going bankrupt. So that it is not necessary again, what proposals are you considering to control the exploding disability program cost?

Studies have been undertaken to fully understand the reasons for the increase in disability applications and awards. The early results of those studies suggest a number of reasons:

1) The recession of the early 1990s, as is historically the case with economic downturns, caused application numbers to jump; 2) The aging of our population, combined with decreasing mortality rates for people age 50 and over, has led to a significant

increase in the number of people who, because of age, are statistically more likely to suffer a disability; 3) court decisions and congressional mandates have had the effect of expanding eligibility for Social Security benefits; and 4) The public has a heightened awareness of the existence of Social Security disability insurance.

With respect to the reallocation of tax rates between the OASI and DI Trust Funds enacted last year, it is important to remember that, historically, reallocation of rates has been used to alleviate temporary funding problems encountered by the respective trust funds. In the 1977 Amendments, money was reallocated from OASI to DI to help resolve temporary financing problems encountered by DI in the late 1970s. On the other hand, in 1980 and again in 1983, funds were reallocated from DI to OASI to avoid depletion of the OASI Trust Fund. The important point to note is that Congress has always been flexible in shifting funds from one fund to the other as temporary solutions to problems.

We are taking steps to control the growth of the disability program. I am determined that disability program dollars should only go to those who meet the strict requirements of the law. If a person is no longer qualified for Disability Insurance benefits because they no longer have a qualifying impairment, then I want to be able to stop those benefits as quickly as possible. I know that, because of initial claim workloads and limited administrative resources, the Social Security Administration made a conscious decision in the early 1990s to limit the number of continuing disability reviews (CDRs) that were performed. And, in fact, SSA conducted an average of less than 70,000 per year during the 1991-93 period. Since I became Commissioner, we have stepped up the pace and will complete approximately 175,000 Title II CDRs in fiscal year 1995 alone. And for the first time in the agency's history, a line item of \$215 million has been added by the Administration to SSA's fiscal year 1996 budget establishing a minimum level of funding for continuing disability reviews. These funds will enable SSA to process approximately 430,000 continuing disability reviews in fiscal year 1996, which is almost triple the number of CDR's performed in fiscal year '94.

I am convinced that we can do more to help people who are able to work despite their impairments. It disturbs me that less than one-half of one percent of the individuals who receive Social Security Disability Insurance benefits ever leave the rolls to return to work. Recognizing the need to intensify our efforts to assist beneficiaries and applicants in making the transition from dependence to independence, I directed my staff to develop a proactive strategy aimed at increasing the employment of current and potential disability beneficiaries. Part of our initiative includes consultation with other Federal agency partners, members of the disability community, and outside experts to obtain broad

input on the problems and barriers people with disabilities face.

Our back-to-work strategy will likely revitalize our ongoing relationship with the State vocational rehabilitation agencies and other providers and, in so doing, dramatically increase the number of beneficiaries served by those agencies. Our goal is to aggressively expand opportunities for our consumers to receive employment services from other State agencies and private sector organizations. We will work to maximize the employment potential of young people with disabilities and simplify program policies for people who want to work.

We will benefit also from the work of the National Academy of Social Insurance. At the request of the House Ways and Means Committee, the Academy has convened a Disability Policy Panel, which is currently examining the relationship between income support policy and employment of people with disabilities. That panel's charge specifically calls for a review of the Social Security definition of disability and its effect on employment and receipt of benefits. The Social Security Administration has been working closely with the panel and will continue to do so.

4. In 1983, when Congress first taxed Social Security benefits, it was done to keep the Old-Age Trust Fund solvent. In 1993, however, Congress increased the tax on Social Security benefits to keep the Medicare Trust Fund solvent until 2001. In 2001, it will be bankrupt. As a possible future trustee of the Medicare Trust Fund, what proposals are you considering to keep the Medicare Trust Fund solvent? Should Congress reallocate a percentage of the FICA tax from the OASI Trust Fund to keep the Medicare Trust Fund solvent past 2001? If not this, what?

I certainly share your concern about the fiscal future of the Medicare Part A Trust Fund. That trust fund ended fiscal year 1994 with a surplus of close to \$130 billion but, according to estimates contained in the 1994 Medicare Trustees Report, it may become insolvent in the year 2001. Since that report was issued, estimates of Medicare Part A spending have been adjusted, and the Department of Health and Human Services is now projecting the insolvency date to be in 2002 or 2003. Needless to say, it is still a matter of great concern.

I believe very strongly that when Congress again takes up the issue of health care reform, special attention must be given to the fiscal state of Medicare. It is my sincere hope and expectation that it will be unnecessary to reallocate dollars from the OASI Trust Fund to the Medicare Trust Fund. I have every confidence that Congress will enact some form of health care reform legislation long before the year 2001 and that, as part of that legislation, the Medicare Trust Fund will be placed on more stable financial footing.

As someone who will become a Trustee of the Medicare Trust Fund, I take this responsibility very seriously. You can be assured that I will do everything within my power to ensure that the public's investment in the Medicare program is well protected by its Board of Trustees.

5. Which recommendations, if any, of the Bipartisan Commission on Entitlement and Tax Reform do you support and why? Are there other options Congress should consider?

and

6. Which recommendations, if any, of the Simpson/McMillan/Goss alternative to the Bipartisan Commission's report do you support?

Perhaps nothing illustrates more pointedly the difficulty in plotting the future of Social Security and Medicare than the fact that the Kerrey-Danforth Commission was unable to agree on a specific set of policy recommendations. I believe this commission served a very useful purpose in bringing the issue of entitlement reform, as well as reform of other mandatory spending programs, to the forefront of public attention. Its work serves as an important tool for other groups addressing these issues, including the Advisory Council on Social Security.

The Kerrey-Danforth proposals included, among other ideas, a reduction in benefit growth for middle-income and high-wage workers phased in over a 50-year period, and a mandatory requirement that workers make non-deductible contributions to Individual Retirement Accounts. The Simpson/McMillan/Goss alternative included, among other ideas, a limitation on Social Security cost-of-living adjustments for those whose benefits are in the 20th percentile.

While the 32-member Kerrey-Danforth Commission did not make any policy recommendations per se, I do agree with a number of points made in the letter that a majority of Commission members signed to the President. For example, I agree that more of the American people should be involved in recommending policy solutions. I also agree that Social Security ought to balance its commitments with the funds available to honor those commitments. And I strongly concur with the premise of the Simpson/McMillan/Goss report that "entitlement programs should not be used as tools to resolve imbalances in other parts of the Federal budget". I apply that principle to the self-financed Social Security program. The Social Security program needs to be brought into long-term balance. It is unacceptable, though, to make changes in Social Security in order to make a contribution to reducing the general fund deficit, including deficits in other entitlement programs.

It became clear that the Kerrey-Danforth Commission was not going

to be able to agree on a specific set of policy recommendations as soon as the debate began to focus on individual policy ideas instead of a comprehensive package of proposals. This is the same problem we will face if I begin advocating individual policy options right now. In other words, before we even begin the process of educating the public and involving them in discussions of Social Security's future, opposition would coalesce against individual issues. Such single-issue politicking would be the harbinger of an unsuccessful effort to ensure the long-range stability of Social Security. The Administration and Congress together need to establish a climate in which ideas to strengthen Social Security for the long-term can be developed and considered.

In the broad principles the Kerrey-Danforth Commission adopted early in its process, it was said that the American people must be empowered to participate in developing satisfactory solutions. I enthusiastically share that view. I believe it will be difficult for Congress and the Administration to act effectively on the issues that must be confronted unless we develop a consensus among a well-informed public that decisive action is necessary. My priority has been, and continues to be, helping to develop an atmosphere that will lead us to that consensus.

7. While the Social Security system is in surplus now, by the year 2029 the Social Security system will be paying out \$700 billion more than it will collect in income. What options should Congress consider to prevent the bankruptcy of the Social Security system? If not tax increases or benefit reductions, how do you suggest Congress make up the difference?

Each year, the Board of Trustees produces three different long-range estimates for the Social Security program -- one based on optimistic assumptions about the future, one pessimistic, and one intermediate. The 2029 target date stems from the intermediate projection which, I believe, is the proper estimate to use for assessing the fiscal integrity of the program. But it should be stressed that the intermediate projection is just that, not a certainty but a projection, based on future trends and events, such as fertility rates, net immigration rates, productivity increases and other factors that are difficult to predict.

If we assume the intermediate assumptions are the closest of the three to being correct in projecting the future, then total outlays will exceed total non-interest income in the year 2013. Total income for the OASDI program, including interest to the Trust Funds, will continue to exceed total outgo until the year 2019. The Trust Fund will continue to grow until that year. After 2019, it will take another ten years to exhaust the accumulated Trust Fund. The public needs to understand that Social Security will not run out of money in the year 2029. Income will definitely continue but, without changes, it won't be

sufficient to maintain full benefit payments.

To ensure there is sufficient funding for the estimated 80 million people who will be receiving Social Security benefits in 2029, and to all future generations of American workers, we must take a comprehensive, bipartisan approach to any reform initiatives. We should consider all reasonable ideas, including your suggestion that the retirement age be phased upward to age 70. That is one of the many policy options being considered by the Advisory Council. Among the other ideas the Council is evaluating are: 1) extending the period over which average wages are computed; 2) investing a portion of the Social Security Trust Funds in passive indexed investments in private companies, thus improving the return Social Security receives; 3) raising the Social Security contribution rate by a small percentage; 4) applying the Social Security contribution rate to a greater portion of the earnings of those in high wage brackets; 5) reacting to any correction in the definition of the cost-of-living adjustment, such as that suggested by Federal Reserve Board chairman Alan Greenspan; 6) increasing the retirement age to a higher level than that called for in current law; 7) pushing up to an earlier date the point at which age 67 becomes the normal retirement age; 8) extending Social Security coverage to the one-third of state and local employees not currently included in the voluntary provisions in present law; 9) taxing the portion of Social Security benefits that exceed contributions a worker has made to the OASDI fund, and 10) reducing the bend points in the present benefit formula, which would result in future benefit levels not increasing quite as much as current law provides.

I do believe it is in our best interest to act well in advance of a crisis. If we wait until the eve of a crisis to enact changes it is likely that the adjustments would have to be more dramatic and painful. By acting before a crisis occurs we can restore confidence in the program for today's workers who would again have reason to believe that Social Security will be there for them when they retire.

Although we need to give the American public adequate lead time to prepare for any necessary changes in the program, we do not need to unnecessarily alarm them into thinking Social Security is on the imminent verge of bankruptcy. In fact, as you know, quite the opposite is true. I frequently point out to audiences that this year Social Security will take in \$399 billion and pay out \$336 billion. I also tell them that the surplus will continue to widen into the second decade of the next century. My message is that we need to always be thinking about the long-range issues facing Social Security, but we are not on the eve of a crisis.

8. The bottom 400 entitlement programs will total about \$50 billion in 1995. The top four entitlement programs (Social

Security, Medicare, Medicaid, and other retirement programs) plus interest will cost the Federal government about \$900 billion in 1995. By the year 2004, 67 percent of Federal spending will be spent on the top four entitlement programs plus interest. As Commissioner of the largest entitlement program, how do you suggest Congress balance the budget if Congress does not touch the top entitlement programs? Should Social Security be on the table for purposes of balancing the federal budget?

The question presumes that Social Security contributes to the budget deficit and must be "touched" in order to balance the budget. That simply is not the case. Social Security is, and always has been, a self-financed program. It more than pays its own way and is not a contributing factor to deficit spending. I agree with President Clinton's view that, in his words, "Social Security must be dealt with on its own terms." Reforms to the Social Security program should be made with the sole objective of strengthening Social Security, not achieving other short term budgetary goals. As Senator Moynihan said last year, "Cutting Social Security benefits would not actually address the underlying deficit problem -- it would just produce a larger surplus to help mask the problem."



THE COMMISSIONER OF SOCIAL SECURITY
WASHINGTON DC 20201

March 28, 1995

The Honorable Bob Packwood
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As you are aware, in 1994 the Social Security Trustees forecast that the Old Age and Survivors Insurance and Disability Insurance (OASDI) Trust Funds would not be exhausted until the year 2029. I refer to the Trustees forecast to make two important points: Social Security reforms should be designed to address long-term issues in the program and the current debate on the Federal Budget is not the best forum for dealing with these long-term issues. As the Trustees stated in their most recent report, the Social Security program is sound for many years to come. Any changes to the program should be designed to address the long-term operation of the program; an atmosphere where potentially rash and hasty decisions could be made should not be created when no short-term crisis exists.

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This is not to say that reforms should be delayed until a crisis occurs--they should not. Any changes made in the program should occur well in advance of a crisis so that changes will be incremental and allow time for individuals to make necessary changes in their retirement plans. But as past successful efforts to reform the program have shown, changes should be made to improve the long-term standing of the program only after a

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the Chairs and members of the Senate Finance Committee and the House Ways and Means Committee, the Commissioner of Social Security and other relevant Executive Branch officials. We need to be able to go together before the American people and discuss, in a bipartisan voice, what needs to be done to strengthen Social Security for the long term.

I have established as one of my primary goals as Commissioner the rebuilding of public confidence in Social Security. I directed that a comprehensive plan be developed to involve the Social Security Administration and several national advocacy organizations in a coordinated effort to raise the American people's awareness concerning Social Security, its value and its future.

The next step was the establishment of the Advisory Council on Social Security, which is currently working toward the scheduled summer release of its report. It is impossible to overstate the importance of the work being done now by the Advisory Council. No major reform of Social Security has ever taken place without being preceded by recommendations from the Advisory Council on Social Security or a similar bipartisan panel.

That was true nearly 50 years ago when the 1937-38 Advisory Council made recommendations that resulted in what is still the basic structure of the Social Security program, adding dependents and survivors benefits and making benefits more adequate. It was true approximately 45 years ago when the 1947-48 Advisory Council recommended changes, which became law in 1950, that made it clear Social Security would be a social insurance program rather than a welfare-type program. The recommendations included significant benefit increases, expanded coverage, and an extension of the program to include disability benefits.

It was true 30 years ago, when the 1965 Council recommended the creation of the Medicare program, and it was true 16 years ago when the 1979 Council, among other recommendations, suggested the taxation of Social Security benefits. And, of course, we know very well the historic accomplishments of the National Commission on Social Security Reform, the Greenspan Commission, in designing the recommendations that became the 1983 Social Security amendments passed by Congress. It is clear that citizens advisory councils have, since the inception of Social Security, played a critical role in the development of the program.

Working with Secretary Shalala, I made certain that the current Advisory Council is bipartisan and encompasses different viewpoints on Social Security (witness, for example, the participation of both Robert Ball and Carolyn Weaver, two of the nation's most renowned experts on Social Security, but with disparate views about the program). It also reflects demographic diversity -- its members ranging in age from 80 to the 25-year-

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old mayor of Baldwin Park, California -- and a diversity of experience from labor, business, academia and government. It is a very capable Advisory Council, headed by Professor Edward Gramlich, director of the Institute of Public Policy Studies at the University of Michigan. He is a former Deputy Director and Acting Director of the Congressional Budget Office.

When I met with the Advisory Council members, I emphasized the importance of the primary task with which they are charged to focus on Social Security financing and to develop recommendations for improving the long-range financial status of the OASDI program.

Among the specific issues the Advisory Council is discussing are income distribution trends and the implications for retirement income security, adequacy and equity of Social Security benefits, the consumer price index and its effect on benefit adjustments, demographic issues concerning the baby-boom generation and beyond, and the Social Security Disability Insurance program. They also have two technical panels of experts, one reviewing the assumptions and methodology used to project the future financial status of the OASDI program, the other analyzing the relative roles of the public and private sectors in providing retirement income.

The Advisory Council is close to completing its work on these issues. At this point, the panel has finished compiling a list of possible options to rectify Social Security's long-range fiscal imbalance. Next the Advisory Council plans to arrange different combinations of options to achieve their desired objectives. This has been a very public process, involving open hearings in cities across the country. Senator Kerrey testified at these hearings, as did former Congressman Pickle. Many individuals and representatives of advocacy organizations have participated in the hearings. After the Advisory Council has finished its work, I look forward to discussing its findings and recommendations with you and your colleagues.

3. In 1994, Congress had to reallocate a portion of the FICA tax from the OASI Trust Fund to the DI Trust Fund to prevent the disability fund from going bankrupt. So that it is not necessary again, what proposals are you considering to control the exploding disability program cost?

Studies have been undertaken to fully understand the reasons for the increase in disability applications and awards. The early results of those studies suggest a number of reasons:

1) The recession of the early 1990s, as is historically the case with economic downturns, caused application numbers to jump; 2) The aging of our population, combined with decreasing mortality rates for people age 50 and over, has led to a significant

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increase in the number of people who, because of age, are statistically more likely to suffer a disability; 3) court decisions and congressional mandates have had the effect of expanding eligibility for Social Security benefits; and 4) The public has a heightened awareness of the existence of Social Security disability insurance.

With respect to the reallocation of tax rates between the OASI and DI Trust Funds enacted last year, it is important to remember that, historically, reallocation of rates has been used to alleviate temporary funding problems encountered by the respective trust funds. In the 1977 Amendments, money was reallocated from OASI to DI to help resolve temporary financing problems encountered by DI in the late 1970s. On the other hand, in 1980 and again in 1983, funds were reallocated from DI to OASI to avoid depletion of the OASI Trust Fund. The important point to note is that Congress has always been flexible in shifting funds from one fund to the other as temporary solutions to problems.

We are taking steps to control the growth of the disability program. I am determined that disability program dollars should only go to those who meet the strict requirements of the law. If a person is no longer qualified for Disability Insurance benefits because they no longer have a qualifying impairment, then I want to be able to stop those benefits as quickly as possible. I know that, because of initial claim workloads and limited administrative resources, the Social Security Administration made a conscious decision in the early 1990s to limit the number of continuing disability reviews (CDRs) that were performed. And, in fact, SSA conducted an average of less than 70,000 per year during the 1991-93 period. Since I became Commissioner, we have stepped up the pace and will complete approximately 175,000 Title II CDRs in fiscal year 1995 alone. And for the first time in the agency's history, a line item of \$215 million has been added by the Administration to SSA's fiscal year 1996 budget establishing a minimum level of funding for continuing disability reviews. These funds will enable SSA to process approximately 430,000 continuing disability reviews in fiscal year 1996, which is almost triple the number of CDR's performed in fiscal year '94.

I am convinced that we can do more to help people who are able to work despite their impairments. It disturbs me that less than one-half of one percent of the individuals who receive Social Security Disability Insurance benefits ever leave the rolls to return to work. Recognizing the need to intensify our efforts to assist beneficiaries and applicants in making the transition from dependence to independence, I directed my staff to develop a proactive strategy aimed at increasing the employment of current and potential disability beneficiaries. Part of our initiative includes consultation with other Federal agency partners, members of the disability community, and outside experts to obtain broad

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input on the problems and barriers people with disabilities face.

Our back-to-work strategy will likely revitalize our ongoing relationship with the State vocational rehabilitation agencies and other providers and, in so doing, dramatically increase the number of beneficiaries served by those agencies. Our goal is to aggressively expand opportunities for our consumers to receive employment services from other State agencies and private sector organizations. We will work to maximize the employment potential of young people with disabilities and simplify program policies for people who want to work.

We will benefit also from the work of the National Academy of Social Insurance. At the request of the House Ways and Means Committee, the Academy has convened a Disability Policy Panel, which is currently examining the relationship between income support policy and employment of people with disabilities. That panel's charge specifically calls for a review of the Social Security definition of disability and its effect on employment and receipt of benefits. The Social Security Administration has been working closely with the panel and will continue to do so.

4. In 1983, when Congress first taxed Social Security benefits, it was done to keep the Old-Age Trust Fund solvent. In 1993, however, Congress increased the tax on Social Security benefits to keep the Medicare Trust Fund solvent until 2001. In 2001, it will be bankrupt. As a possible future trustee of the Medicare Trust Fund, what proposals are you considering to keep the Medicare Trust Fund solvent? Should Congress reallocate a percentage of the FICA tax from the OASI Trust Fund to keep the Medicare Trust Fund solvent past 2001? If not this, what?

I certainly share your concern about the fiscal future of the Medicare Part A Trust Fund. That trust fund ended fiscal year 1994 with a surplus of close to \$130 billion but, according to estimates contained in the 1994 Medicare Trustees Report, it may become insolvent in the year 2001. Since that report was issued, estimates of Medicare Part A spending have been adjusted, and the Department of Health and Human Services is now projecting the insolvency date to be in 2002 or 2003. Needless to say, it is still a matter of great concern.

I believe very strongly that when Congress again takes up the issue of health care reform, special attention must be given to the fiscal state of Medicare. It is my sincere hope and expectation that it will be unnecessary to reallocate dollars from the OASI Trust Fund to the Medicare Trust Fund. I have every confidence that Congress will enact some form of health care reform legislation long before the year 2001 and that, as part of that legislation, the Medicare Trust Fund will be placed on more stable financial footing.

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As someone who will become a Trustee of the Medicare Trust Fund, I take this responsibility very seriously. You can be assured that I will do everything within my power to ensure that the public's investment in the Medicare program is well protected by its Board of Trustees.

5. Which recommendations, if any, of the Bipartisan Commission on Entitlement and Tax Reform do you support and why? Are there other options Congress should consider?

and

6. Which recommendations, if any, of the Simpson/McMillan/Goss alternative to the Bipartisan Commission's report do you support?

Perhaps nothing illustrates more pointedly the difficulty in plotting the future of Social Security and Medicare than the fact that the Kerrey-Danforth Commission was unable to agree on a specific set of policy recommendations. I believe this commission served a very useful purpose in bringing the issue of entitlement reform, as well as reform of other mandatory spending programs, to the forefront of public attention. Its work serves as an important tool for other groups addressing these issues, including the Advisory Council on Social Security.

The Kerrey-Danforth proposals included, among other ideas, a reduction in benefit growth for middle-income and high-wage workers phased in over a 50-year period, and a mandatory requirement that workers make non-deductible contributions to Individual Retirement Accounts. The Simpson/ McMillan/Goss alternative included, among other ideas, a limitation on Social Security cost-of-living adjustments for those whose benefits are in the 20th percentile.

While the 32-member Kerrey-Danforth Commission did not make any policy recommendations per se, I do agree with a number of points made in the letter that a majority of Commission members signed to the President. For example, I agree that more of the American people should be involved in recommending policy solutions. I also agree that Social Security ought to balance its commitments with the funds available to honor those commitments. And I strongly concur with the premise of the Simpson/McMillan/Goss report that "entitlement programs should not be used as tools to resolve imbalances in other parts of the Federal budget". I apply that principle to the self-financed Social Security program. The Social Security program needs to be brought into long-term balance. It is unacceptable, though, to make changes in Social Security in order to make a contribution to reducing the general fund deficit, including deficits in other entitlement programs.

It became clear that the Kerrey-Danforth Commission was not going

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to be able to agree on a specific set of policy recommendations as soon as the debate began to focus on individual policy ideas instead of a comprehensive package of proposals. This is the same problem we will face if I begin advocating individual policy options right now. In other words, before we even begin the process of educating the public and involving them in discussions of Social Security's future, opposition would coalesce against individual issues. Such single-issue politicking would be the harbinger of an unsuccessful effort to ensure the long-range stability of Social Security. The Administration and Congress together need to establish a climate in which ideas to strengthen Social Security for the long-term can be developed and considered.

In the broad principles the Kerrey-Danforth Commission adopted early in its process, it was said that the American people must be empowered to participate in developing satisfactory solutions. I enthusiastically share that view. I believe it will be difficult for Congress and the Administration to act effectively on the issues that must be confronted unless we develop a consensus among a well-informed public that decisive action is necessary. My priority has been, and continues to be, helping to develop an atmosphere that will lead us to that consensus.

7. While the Social Security system is in surplus now, by the year 2029 the Social Security system will be paying out \$700 billion more than it will collect in income. What options should Congress consider to prevent the bankruptcy of the Social Security system? If not tax increases or benefit reductions, how do you suggest Congress make up the difference?

Each year, the Board of Trustees produces three different long-range estimates for the Social Security program -- one based on optimistic assumptions about the future, one pessimistic, and one intermediate. The 2029 target date stems from the intermediate projection which, I believe, is the proper estimate to use for assessing the fiscal integrity of the program. But it should be stressed that the intermediate projection is just that, not a certainty but a projection, based on future trends and events, such as fertility rates, net immigration rates, productivity increases and other factors that are difficult to predict.

If we assume the intermediate assumptions are the closest of the three to being correct in projecting the future, then total outlays will exceed total non-interest income in the year 2013. Total income for the OASDI program, including interest to the Trust Funds, will continue to exceed total outgo until the year 2019. The Trust Fund will continue to grow until that year. After 2019, it will take another ten years to exhaust the accumulated Trust Fund. The public needs to understand that Social Security will not run out of money in the year 2029. Income will definitely continue but, without changes, it won't be

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sufficient to maintain full benefit payments.

To ensure there is sufficient funding for the estimated 80 million people who will be receiving Social Security benefits in 2029, and to all future generations of American workers, we must take a comprehensive, bipartisan approach to any reform initiatives. We should consider all reasonable ideas, including your suggestion that the retirement age be phased upward to age 70. That is one of the many policy options being considered by the Advisory Council. Among the other ideas the Council is evaluating are: 1) extending the period over which average wages are computed; 2) investing a portion of the Social Security Trust Funds in passive indexed investments in private companies, thus improving the return Social Security receives; 3) raising the Social Security contribution rate by a small percentage; 4) applying the Social Security contribution rate to a greater portion of the earnings of those in high wage brackets; 5) reacting to any correction in the definition of the cost-of-living adjustment, such as that suggested by Federal Reserve Board chairman Alan Greenspan; 6) increasing the retirement age to a higher level than that called for in current law; 7) pushing up to an earlier date the point at which age 67 becomes the normal retirement age; 8) extending Social Security coverage to the one-third of state and local employees not currently included in the voluntary provisions in present law; 9) taxing the portion of Social Security benefits that exceed contributions a worker has made to the OASDI fund, and 10) reducing the bend points in the present benefit formula, which would result in future benefit levels not increasing quite as much as current law provides.

I do believe it is in our best interest to act well in advance of a crisis. If we wait until the eve of a crisis to enact changes it is likely that the adjustments would have to be more dramatic and painful. By acting before a crisis occurs we can restore confidence in the program for today's workers who would again have reason to believe that Social Security will be there for them when they retire.

Although we need to give the American public adequate lead time to prepare for any necessary changes in the program, we do not need to unnecessarily alarm them into thinking Social Security is on the imminent verge of bankruptcy. In fact, as you know, quite the opposite is true. I frequently point out to audiences that this year Social Security will take in \$399 billion and pay out \$336 billion. I also tell them that the surplus will continue to widen into the second decade of the next century. My message is that we need to always be thinking about the long-range issues facing Social Security, but we are not on the eve of a crisis.

8. The bottom 400 entitlement programs will total about \$50 billion in 1995. The top four entitlement programs (Social

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Security, Medicare, Medicaid, and other retirement programs) plus interest will cost the Federal government about \$900 billion in 1995. By the year 2004, 67 percent of Federal spending will be spent on the top four entitlement programs plus interest. As Commissioner of the largest entitlement program, how do you suggest Congress balance the budget if Congress does not touch the top entitlement programs? Should Social Security be on the table for purposes of balancing the federal budget?

The question presumes that Social Security contributes to the budget deficit and must be "touched" in order to balance the budget. That simply is not the case. Social Security is, and always has been, a self-financed program. It more than pays its own way and is not a contributing factor to deficit spending. I agree with President Clinton's view that, in his words, "Social Security must be dealt with on its own terms." Reforms to the Social Security program should be made with the sole objective of strengthening Social Security, not achieving other short term budgetary goals. As Senator Moynihan said last year, "Cutting Social Security benefits would not actually address the underlying deficit problem -- it would just produce a larger surplus to help mask the problem."