

President's Commission  
to Strengthen Social Security

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I N D E X

	<u>Page</u>
Welcome and Opening Statements	4
Finalizing Language in Interim Report	12
Motion	69
Creating Mechanism for Receiving Public Input at September Public Hearings	70

Keynote: "---" indicates inaudible in transcript.

M O R N I N G S E S S I O N

(10:14 a.m.)

Welcome and Opening Statements

MR. PARSONS: If we could take our seats. Good morning, ladies and gentlemen, fellow commission members, and members of the public. My name is Dick Parsons. I am one of the two co-chairs of this commission, the President's Commission to Strengthen Social Security. I am going to say that one more time, President's Commission to "Strengthen" Social Security . To my left is my distinguished co-chair, former Senator Daniel Patrick Moynihan, who is going to chair this morning's proceedings. Senator.

CHAIRMAN MOYNIHAN: Thank you, Mr. Chairman. We agreed that we'd flip these not very onerous tasks back and forth as we move through the sequence of our commission. I'm going to take the liberty of -- well, let me just say, what we're here to do today is to go right down the table, starting with Bob Johnson and ending with Dick Parsons, going around, to take comments on the draft report to see what you feel about it and how you want it changed and see if we can agree to the changes.

But first, I am going to take the liberty of putting us in a moment of perspective here about, as it were, the sequence of events in the 1990's that has brought this issue to the floor in the way it has. He's going to help me pass out something. Just pass these down, an article in *The Washington Post* on

June 29. That was since we last met. That describes a paper that only Estelle James and John Cogan and Saving down there could love, but it's a big 70-page document called "Family Policy and Social Security Policy During the 1990's." It was written for a conference that was held at the Kennedy School, Harvard University, on economic policy during the 1990's, and it's written by three distinguished economists: Douglas Elmendorf, now at the Federal Reserve; Jeffrey Liebman, who's at Harvard and at the National Bureau of Economic Research; and David Wilcox, who is also now at the Federal Reserve. Both he and Elmendorf had been in the Treasury, and Liebman had been Assistant to the President for Economic Policy in some mode in the White House.

As we set about consideration of our first commission statement, it might be helpful, as I said, to take a moment to review similar efforts that took part -- that took place in the previous decade. For this I will rely on the paper, "Fiscal Policy and Social Security Policy During the 1990's."

As I said, each of these three economists who had written the paper, and Marty Feldstein did a comment on it in that session, were serving in the White House or at the Treasury next door. The paper begins, much as it turns out our draft begins, and they were done without knowledge of one and the other. I quote on page two:

"It has been clear for some time that  
the aging of the U.S. population will

eventually require sharp changes in Social Security revenues or benefits. The 1994-96 Advisory Council on Social Security presented three reform plans that placed important emphasis on additional prefunding and moved two other ideas to the center of the Social Security debate: individual retirement accounts and investment in equities."

I might just say that again. That '94-96 Advisory Council "moved two other ideas to the center of the Social Security debate: individual retirement savings accounts and investment in equities." These are competing ideas, of course, but they all came up in that early part.

The Advisory Council was, as the authors write, one of three "important commissions" to consider changes in Social Security during the decade of the 1990's. First came the Bipartisan Commission on Entitlement Reform that was co-chaired by Senators Bob Kerrey and Jack Danforth of Missouri. Next was the Quadrennial Advisory Council I mentioned, which was chaired by Edward Gramlich, and finally, the National Commission on Retirement Policy that was co-chaired by Senators Breaux and Gregg, and Jim Kolbe and Charles Stenholm Bill Frenzel will know from the House.

None of these undertakings was trouble free. Some

might say that they all failed. I would argue to the contrary, that they set the agenda we are now addressing.

Kerrey and Danforth, as the authors note, set forth a comprehensive package, but, and again I quote, "Congressional leaders and Administration officials distanced themselves." Undeterred, Kerrey and his fellow commission member Alan Simpson went on to introduce legislation that among other things, again I quote, "gave workers the option of diverting two percentage points of their payroll tax payments to individual investment accounts." Thank you.

The Gramlich Commission split three ways, and there was no majority report. However, the authors observe, again I quote:

"It is worth noting that despite the divisions on the commission, the majority of members supported some sort of individual accounts as part of Social Security; thus, the idea of individual accounts had in a few short years made a remarkable transition," and you won't mind this last clause, "from the white papers of libertarian think tanks to the mainstream policy debate."

But the last of the three commissions, that of Senators Gregg, Breaux and their House colleagues, was sponsored by the Center for Strategic and International Studies. It, too,

recommended diverting two percentage points of the payroll tax to create individual accounts. In the last Congress, Senator Kerrey and I introduced such a measure as S.21, the First Members Bill in the Senate. We put large emphasis on corrections to the Consumer Price Index, which was a feature also of the Gregg-Breaux proposal.

Now, all this was known. What was not known until this paper appeared was the extent to which these views made their way into the Administration itself. The Clinton Administration had at first kept its distance from this issue, but this was no longer feasible, given the facts being set forth by the commissions. The authors write, "Within the White House, serious consideration of tackling long-run entitlement issues began in the middle of 1997." A high-level team was assembled which met regularly in the summer and fall of 1997.

Another possible issue, and White House staffs do this, there's a "we could go this way or we could go that way." I remember in the late days and months of the Kennedy Administration, there was the debate on whether the President should take up for his next election year issue, problems of the suburbs or problems of poverty. You could make a case in either direction, and LBJ came in and he picked poverty. The tax reform was such an issue. Instead, they moved to Social Security, which in contrast, and I quote:

"There was considerable enthusiasm among

the economic team for undertaking Social Security reform. This enterprise stemmed in part from the fact that the Gramlich Commission was seen to have set out a number of plausible paths to running long-run solutions and in part from the Rooseveltian legacy for the President that would come from putting Social Security on secure ground for the coming century."

The problem that had to be faced was that tax rates would have to, again I quote, "rise very significantly over time to fund current law benefits." The payroll tax would have to rise from the current 12.4 to "about 18 percent," which I think you --- an increase "roughly half," quoted there.

In his January 1998 State of the Union Address, President Clinton called on Congress to "Save Social Security First," announcing that his budget would reserve all the projected surplus pending Social Security reform. All reform options other than an increase in the payroll tax should be on the table.

In an op-ed article in *The New York Times* in March 1999, the former chairman of the Council and Economic Advisors Martin Feldstein, who is the theorist perhaps primarily responsible for all this, commented that, again I quote:

"Individual accounts do not mean 'privatizing' Social Security. The government would set up the accounts, regulate the investments, and guarantee benefits," unquote. He sensed that there was a widening common ground on Social Security, which was the title of his page.

One of the Clinton advisors, getting their options there, one of them clearly was individual accounts, and one of the problems was administrative costs. Peter Diamond had shown that the costs of the accounts in Chile and the United Kingdom were considerably high, and now again I quote the paper: "Deputy Secretary Summers insisted that the working group begin by determining whether it was even remotely feasible to set up such a system, what kind of service it could provide, and at what cost."

From a political standpoint, it was considered important that the system be up and running before President Clinton left office in early 2001.

We learn that the irrepressible Deputy Secretary at the time, later a Secretary, soon to be President of Harvard, Lawrence Summers, quote, "was fond of saying that he had to guard against the risk of setting up the Post Office when people were used to dealing with Federal Express."

The account I've just sent around to you speaks of the mind-numbing details to which the staff workers went to figure out just how many key strokes would be required by the IRS to

enter all the individual accounts and so forth.

As *The Washington Post* account, Mr. Glenn Kessleb noted, previous to the appearance of this paper, "the depth of the Administration's interest in private accounts was unknown." The response of Professor Liebman, in response to that article, has said, "but be clear that in no event would the Administration have diverted resources from the traditional Social Security system." Which is indeed our challenge.

I will conclude by citing a letter of advice I have just received from Bob Kerrey. Bob I don't think reads many of the papers presented at the Kennedy School conferences, but he knows what goes on. I'll just let us off, set us off on this point. He said, "I have a great and abiding interest in the success of the 2001 Social Security Commission. I am willing to provide free advice, and I offer the following three suggestions.

One, start talking about the details of the most popular plan to fix Social Security. It is currently endorsed by all manor of folk. It is called the 'Do-Nothing Plan.' The Do-Nothing Plan discloses no details other than opposition to increasing FICA taxes. Citizens who want to know the rest of the details must look to the Social Security trustees who will tell them this: 'The Do-Nothing Plan proposes to cut benefits 25 percent to 33 percent.' And finally, wealth accounts should have a goal. No American who is willing to work all their lives should be poor when they become eligible for Social Security. Our goal is to

eliminate poverty amidst eligible Social Security beneficiaries.

By the way, the Do-Nothing Plan will increase poverty."

With that discourse and the obvious reminder that as some of you will -- it will occur to some of you that I have returned to the classroom myself, but I just thought we should make it all about on the record.

Now it is our plan, if we may, just to go right down the table to hear comments on the draft plan and any other subject that comes to any commissioner's mind in the course of going around the table. Bobby.

MR. JOHNSON: Thank you, Mr. Chairman. I will be very brief. I believe that the draft report clearly articulates the problem in very candid and fair language. It's an assessment of an issue that we all recognize to be vitally important to every American citizen, and I am particularly gratified that the report focused clearly on an issue that's of prime importance to myself and I believe to all African Americans, is the issue that confronts the disparity of ways that the Social Security system affects African Americans, because the disparity in mortality rates between African Americans and other Americans where African Americans die earlier, therefore receiving less in the form of Social Security payouts and less in the form of overall return from their work contribution to Social Security. I am convinced that one of the ways to address this is through the use of wealth generation private accounts that forms part of an estate

opportunity for African Americans.

Let me also say that I am, as a Democrat and a member of the Democratic side of the commission, somewhat disappointed that the response to what I think is a very carefully worded assessment of the problem and the response has been a hyperbole with a kill-the-messenger kind of approach. I was particularly disappointed in the response from Congressman Gephart in his comments about this commission, where he states in a press release that the commission, I'm quoting here, "is rigged with members who want to destroy Social Security."

I think that if this commission is faced with this kind of rhetoric where the integrity of each commission member is called into question and the public is forced to choose sides in a partisan way, we will never get this important policy debate on the table in a reasoned way. As I said, as a member of the Democratic party and as a Democratic appointee to this committee, I would urge my fellow Democrats to lower the rhetoric, stop the kill-the-messenger strategy, and focus on trying to address a very serious problem that will not go away simply by calling out names or trying to hide in the sand.

I hope the public will understand that all of us here and I think most Americans are dedicated to trying to solve a problem that will ensure that the benefits of the Social Security program that have worked for a long time will continue to be available to not only retirees but young people who are

contributing to the Social Security system. Thank you.

CHAIRMAN MOYNIHAN: You have trouble making up your mind, I see. John.

DR. COGAN: Mr. Chairman, thank you. I do find it quite striking, the difference between what was going on in the Clinton Administration that you just described working towards a solution and the rhetoric that Robert just described coming from some members of Congress.

My general comments on the report, I thought it was a very good report, very thoughtful, very well written. I have a lot of detailed comments that I will transmit to the staff in the next couple of days, and I'd like to take this opportunity to underscore a couple of points that I think are particularly important in the report and to make some suggestions.

The first point that I want to underscore is the point that the staff made in the report about the financial problem facing the system. The way they described the problem I think is indeed quite accurate, as I understand it. All of the numbers that were used were numbers that came from the Trustees' Report.

They are not this commission's own numbers; they are the official numbers of the Social Security Administration. And according to these numbers, the problem is not in the distant future. The problem occurs quite soon. The first of the baby boomers begins to collect benefits just 7 years from now. The second point that they make is that the problem is large. Within

25 years, if one wished to finance all of the benefits that have been promised to retirees, one would have to raise payroll taxes by more than 30 percent. The problem is permanent. Many people think of this problem as one that's associated exclusively with the baby boom generation, and yet what the report makes very clear is that we have not a problem that's a pig in a python moving through. It's a permanent problem and requires a permanent fix.

I do have a suggestion regarding this section. It seems to me that the commission could do a better job in helping people understand how soon the problem is upon us. I know I'm just getting used to the idea that I'm living in the 21st century, and so 2016 still seems to me to be a long way off. And then I think, my Lord, if someone is age 50 now, when they reach age 65 that's just when the Social Security system begins having financial problems, and you might want to explore a little bit the circumstances that will confront a person who's age 50 today.

When that person becomes 65, as I've said, the Social Security system will begin facing a financial problem. Five years later the government will have to raise payroll taxes by about 14 percent in order to finance the benefits that are promised to this individual. When the individual reaches age 75, the Federal government will have to raise payroll taxes by 34 percent just to cover the benefits that have been promised to this individual. It is very unclear whether the government will

be able to impose such high taxes on future workers in order to pay the promised benefits to individuals. So to say the least, this example shows that the benefits to such an individual are indeed at risk.

When this person retires at 65, the benefits that Social Security will pay to the individual are actually quite small. This individual faces very little prospect of receiving back in Social Security benefits what he or she put into the system, what he or she's employer put into the system, plus a reasonable rate of interest.

By using these examples -- take a person who's age 40 now. When that person reaches age 55, the system will begin to face financial trouble. Higher taxes will be imposed on that individual starting at age 55 through the rest of the individual's working life. By the time this individual reaches age 65, the added tax burden could be as high as 20 to 30 percent just to finance the additional benefits that have been promised to retirees at that point. This individual also faces little hope of receiving back in returns of what they paid into the system plus a reasonable rate of interest.

I also think that the commission did a wonderful job in explaining some of the distributional aspects of the program that kind of lie below the surface. One of the goals of Social Security throughout its history has been to be basically a fair system, and this traditional goal has meant basically that

contributions have to be related to benefit payments. The greater a person's contributions, the greater will be the benefits that a person receives, but only up to a point. I think many readers will be surprised that this basic concept does not apply to a large segment of Social Security participants. Many African Americans pay more into the system in contributions and get less in return, simply because they have a lower life expectancy. Many young people will pay more into the system and get less in return than older individuals, just because they happen to be born later. Two-earner couples end up contributing more to the system and getting back less from the system than one-earner couples. So the system has a lot of redistributive components that kind of lie below the surface.

One has to ask oneself, how can such a system with such redistributive anomalies persist for such a long time? I think the answer is, the system is so complex that very, very few people realized that these anomalies occur, and it suggests that when we consider solutions to the system that we correct some of these basic fairness problems that the system has.

Finally, it does seem to me that at the close of the report it would be helpful to point out to the public that right now we have a window of opportunity to improve this system. The dimensions of the problem are in the future, and they are very clear to us. The window has been open by the budget surpluses that we now have. We can use these surpluses to solve Social

Security's financial problem. This window of opportunity is going to close as the surpluses diminish with the rising number of retirees in the baby boom generation, but if we can shore up the system, we can give individuals much more confidence in the Social Security program. We can do this by giving them ownership, greater value, and greater security in their benefits.

So I would recommend that when you think about a closing chapter of this report that you end on this note of optimism. I do believe that we have this unique window, and I think this commission will use the window to solve the problem. Thank you, Mr. Chairman.

CHAIRMAN MOYNIHAN: Well said, and good counsel. I think Mr. Blahous -- I see him taking notes.

MR. BLAHOUS: Indeed.

CHAIRMAN MOYNIHAN: You might also be pleased, sir, that while you were speaking, Steve Goss was nodding.

DR. COGAN: Nodding off?

(Laughter)

SENATOR MOYNIHAN: Noncommittally. Sam Beard.

MR. BEARD: I want to commend the current report. I think it really sets out in very clear language the problems. That's what the interim report was supposed to do. I think some of the highlights are -- I've been interested in sort of the response and the counterarguments. I think, Senator, in terms of people who are against what we are potentially talking about

here, you'd be surprised to know that you want to dismantle Social Security, that you've always been against it, and that you want to throw it in the wastebasket. That might come as sort of a surprise bulletin to you. There is no individual in the country who has been a greater, stronger fighter for Social Security and its benefits than yourself, and I think it's sort of interesting to characterize Senator Moynihan as wanting to debunk and destroy Social Security. It's a fast-breaking news bulletin.

Underlying what's going on, which people can't escape, is the demographics are changing. When I go across the country grassroots, as very well pointed out in the report, if you only have two workers left to finance one senior and the Crisis Center in Atlanta says that one-third of all women born today can expect to live over 100, the tax burden of those workers is going to be pretty extraordinary. The debate is who wants to save or destroy Social Security. We all want to save it.

Now if you go down the litany, I hear this all the time, don't give up a guarantee for a gamble, when referring to the fundamental count. I haven't seen anything in the report which talks about giving up the guarantee. I don't think there's one serious plan before the Congress or the Senate or anybody's mind that gives up the guarantee. In my mind, the good plans raise the guarantee for low income, because low-income people largely have no pension and no savings. So here's a chance to not only cut people into equity rights but to raise the

guarantee. There is not one proposal that removes the guarantee.

Then the argument is this is a national and it's a social umbrella and it's not just a retirement plan. That refers to the disability insurance, the six million Americans on disability, and the survivors' benefits. There is not one plan that takes disability or social insurance off the table anywhere in the country that I know of. So these are false arguments.

Now the question is, do we have individual accounts or don't we? I was very pleased in the report in the defining of that. Now, Steve Goss, who is a giant in his own time with the Social Security trustees and is always a source of everybody's facts and figures, and you could update this, Steve, if it's slightly wrong, but the last time I called you, about 18 months ago, 53 percent of all workers reporting to Social Security were earning \$18,000 or less. Now, if I'm earning \$18,000 or less, at \$18,000 I'm paying \$2,200 a year to Social Security, half by the employer, half by the employee. I don't have extra savings. It's not possible. On Friday I can't pay my bills. Now, if I'm setting aside \$2,200 a year, I'm a huge saver.

On a nonpartisan basis we were working hand-and-glove with the Clinton White House. Now we're working hand-and-glove with the Bush White House. The issue going forward in the 21st century is equity rights. How are we going to reasonably open up meaningful savings for all Americans? You can't go to the \$18,000 worker and say, I have a great plan for you, I'm going to

increase your taxes 50 percent, from 12 percent to 18 percent, to bail out a system that's currently failing. It's nobody's fault.

It's because of the demographics. And then I'm going to add an extra \$100 billion on top, which is another 3 to 4 percent of payroll, because I want you to have meaningful savings. That is the plan of the opponents. They don't articulate it that way. Fundamentally, let's raise our taxes to 18 percent just for Social Security, keep it the way it is, and put another 3 to 4 percent on top because we want to have everybody to be a saver. It's a nonstarter from the beginning.

So I'm excited that the report defines the need for savings, the need for the individual accounts. That's a problem which needs addressing. Estelle James is here, and it's very interesting, all around the world the demographics are changing, right now 30 on its way to 40 and then 50 countries which are changing their Social Security systems. They have to. And I think it's ironic that the United States being the leader of equities in the world might be the last. It's an ironic puzzle that communist China might set up an equity private sector system faster than the United States. There's something wrong with that concept.

Last comment. When I first started working on this in 1994, Senator, I went to your staff and they said, fundamentally there's going to be an issue of the old-way-of-looking things versus the new-way-of-looking things. It has nothing to do with

Democrats versus Republicans. So, it's going to be some Democrats and some Republicans who say let's go forward into the 21st century, and it's going to be some Democrats and some Republicans who say no, this is too scary, do nothing, leave me out of it, I don't want to do it, or I happen to like 1935 as a good year. We've got to keep Social Security just the way it was set up. That's a nonstarter.

As I go grassroots, it's very interesting. A lot of the leadership of groups like the African American community, some of the senior groups, are hesitant about this. Grassroots, labor union members say, I want a personal account. Members of seniors systems say, I want accounts for my grandchildren. So fundamentally, people know where this needs to go. I like the report, and I'm happy to be here.

CHAIRMAN MOYNIHAN: Well, that's a pretty valid statement. I think it takes occasion, I was just going to say that I don't suppose there's any of us here who has not called Steve Goss for some counsel, advice. He's been wonderful. You are wonderful, sir. That BACA (sic) comes in much more detail than you can handle. You raised your hand.

MR. GOSS: Senator Moynihan. Yes, if I could just add to what Sam suggested. That value was of about a year and a half ago, and it represents essentially sort of a median or about the midway point in the distribution of earners. That number would probably be closer to about \$20,000 for workers today, just by

way of clarification. Everybody of course is aware, in this group I know, that the median or the sort of 50th percentile tends to be lower than the average earnings level, which is many -- several thousands of dollars higher than that level. It would be closer to \$30,000 actually.

CHAIRMAN MOYNIHAN: The median is that point where half the population is below --

MR. GOSS: The median --

CHAIRMAN MOYNIHAN: -- and half the population is above.

MR. GOSS: Exactly. Half of the workers earning below --

CHAIRMAN MOYNIHAN: Yes.

MR. GOSS: -- half the workers earning above.

CHAIRMAN MOYNIHAN: Gerald Parsky.

MR. PARSKY: Thank you, chairmen, co-chairmen. I, too, want to join in complimenting the staff for the report. I think it is an excellent report, and I think it accurately lays out the problem, which was the objective at this point in time. In particular, I thought it was useful, and really I think for one of the first times I've seen, to lay out the magnitude of the problem in terms of financial assets that would be necessary in order to satisfy the benefits in the future. The part of the report that differentiates between bookkeeping assets and financial assets that are necessary and compares the Social

Security program as it currently exists to what a private pension plan would like I thought was quite interesting. I hadn't seen that outlined before, so I did comment to the staff about it.

Just my general thoughts really are three or four. First, I think what we're really talking about at the heart of this effort is trying to provide our citizens, and in particular lower income people, with a stake in their own retirement which they don't have now. There are a lot of different ways in which you can provide that stake, but I think that it's important that people can feel comfortably that they do have a stake in their own retirement.

As we look at things going forward, I think it's important that we not allow scare tactics or fear to interfere with coming up with real solutions. I cite a couple. Recently I've read that a number of people have pointed to the fact that for the first time in history the 401K plan assets declined, and some would use this as to alert or scare people about the relative safety of investing in equity or investing in securities generally. I would urge that as we move forward that we place that kind of statistic in a historical perspective. If you look at the period 1990 to 2000, or any 10-year period, but if you just look at 1990 to 2000, the average return on investment for the 401K funds was about 11 to 12 percent.

MR. : Really?

MR. PARSKY: And if you look historically at most 10-

year periods for equity returns, they would approximate 9 to 11 percent returns. That's not to say that we would come up with a suggestion that only equity can be invested in or that the nature of the programs that we may suggest might be more narrow, but I think it's very important that we not be derailed from looking at it because of one relatively minor blip, if you will, in the market place.

Second, what I would call area of kind of current hyperbole has to do with the current budget and how the budget surplus may be used or not used in connection with this effort on Social Security. I think it's important to emphasize and continue to reemphasize that the surplus that has been created relating to the Social Security will be dedicated in one form or another to preserving the benefits of Social Security, and if the Congress in its wisdom decides that they want to spend more than they should, that's outside of the Social Security surplus. I think it's not really a choice, at least in my understanding it's not a choice, of spending the Social Security surplus on other things; it's really a choice of whether the Congress in its wisdom wants to finance additional spending outside of the Social Security surplus.

A final point I would make relates to timing. I would reiterate what Sam and John has said I think in terms of timing, and that is, it's extremely important that action be taken now when there is an opportunity to take action, and I would cite in

that connection kind of three things that ought to motivate us now to take action. One, there are more choices available now than may be available in the future. Two, changes or any changes that we talk about can be phased in on an easier basis now as opposed to the future. Three, and perhaps the most important, is I think that with a lot of the hyperbole there is a danger that confidence in the Social Security system may be eroded, and by acting now I think we can help preserve or build confidence both with respect to the ability to pay benefits as they come due and that the system itself will be strengthened. Thank you.

CHAIRMAN MOYNIHAN: Thank you, sir. I think we ought to try to get from a little collection of the polls that were taken in the '80s, early '90s. Clearly a majority of nonretired adults did not think they would get Social Security, and let's get that together. We've had that problem. We may have it and it may get worse. Another of our distinguished economists, Olivia.

DR. MITCHELL: Thank you. Apropos to your point, there was actually a collection of data that was put together from the Health and Retirement Study, which I furnished to Chuck and some other folks on your staff, on changes in the expectation that older Americans --

CHAIRMAN MOYNIHAN: This has been done. Well, good.

DR. MITCHELL: -- have about Social Security. In fact, it appears that fewer older Americans are quite confident about

their expectations of getting Social Security. So we can bring that to the commission as a whole. Be happy to do that.

So thank you very much for providing me the opportunity to make some remarks about our interim report. I'm very pleased to participate in the second meeting of our commission. I take it as a very great honor to serve the nation on this panel in a responsibility that I know all of us, Democrats and Republicans alike, also take quite seriously.

I believe that our commission's goals are to educate our fellow Americans about what our system's financial troubles are and to design a plan that can restore credibility to America's retirement security program. In the draft interim report, which I support, we take up the first task, that is to lay out what the problem with the program is and to identify which direction is up in terms of evaluation criteria. We have not yet begun our second task, which is what lies before us next.

In my remarks today there are two comments that I'd like to offer on our report, to ourselves as a group as well as to the public who might read it, and I very much would like to encourage the public to read it and offer us comments.

The first comment is that the U.S. Social Security system is not in danger of running out of money today. Our report does not say that it is bankrupt today. No one will get benefit cuts today. This is not what the interim report says. I think that's very important to identify and to emphasize, because

many of the objections that we've been hearing really run roughshod over that point.

It is true that our OASI system faces important financial shortfalls that advance action can do a great deal to alleviate. As the report states and other folks here have mentioned today, in about 15 years the annual Social Security system revenues will be inadequate to pay currently promised benefits. Everyone in this room and everyone else listening today should immediately do the mental math that John Cogan proposed. Add 15 years to your age to figure out what you will be doing when the two curves cross. I'm sure that we'll all agree that it's better to try to fix the system now than when we're 15 years older and have that many fewer degrees of freedom.

And also as has been pointed out, this is not a one-shot problem. This is not a one-time issue that we have to fix. The problem is permanent, it's ongoing, and it just keeps getting worse every time another year transpires.

The Social Security system does of course have a claim on Federal government IOUs to pay the money from it, also known as Trust Fund assets. But as our report lays out, redeeming these IOUs requires financing from somewhere. As we know, when the government gets financing from, quote, unquote, "somewhere," this means workers. Typically, either new tax revenue will have to be devoted to the program, or benefits will have to be cut, or some other government spending will have to be reduced. Past

experience, in my judgment, shows that giving the surplus to the government typically results in increased government spending on other programs. I believe that giving control to workers will result in less political risk that the government will spend Trust Fund assets as has happened in the past. Reforming the system now to make benefit promises sustainable in the future is necessary to increase both worker and retiree economic security in the future.

My second point is that many people would be better off under a reformed Social Security system with a personal saving feature. Some researchers claim that today's Social Security system is progressive because the benefit formula provides a higher percentage return to lower wage earners than high earners.

There's no question about it. The benefit formula is progressive under the current system, but there are a couple of issues that need discussion that the report speaks to. One is that many of these studies that I've made allusion to focus only on benefits while ignoring taxes. Obviously, this is an incomplete perspective and not the way most tax payers see the system. About a third of older married women today can expect no extra Social Security benefits if they work. Further, research shows that future increases in women's labor market attachment will not improve many women's benefits, despite the fact that they will be paying payroll taxes into the system each year. We also note in the report that divorce rates typically peak around

7 years after marriage, yet the benefit structure under Social Security today is such that former wives cannot get access to the benefits unless they manage to remain married 10 years under current rules. What this means is that many women will not, under current rules, benefit from paying into the system.

Also, the current system does nothing to ensure that older women are protected from poverty, since there is no minimum poverty guarantee in the OASI system. In fact, for many women the net benefit from Social Security due to additional contributions is and will remain negative for the foreseeable future. I believe we can and should do better, and ownership of a personal account under Social Security can play a critical role in this improvement.

The current system also requires people to pay in taxes over a lifetime, but as the report points out, it does not represent an asset that can be passed on if people die young. As Bob Johnson noted, many people today don't expect any return from the system. For example, a typical 22-year-old man today has a 1 in 5 chance of dying before normal retirement age, so we would get no old age benefit even after a lifetime of contribution. And some people are even more vulnerable. For example, African American men have a 1 in 3 chance of dying young. If they have less than a high school education, their chances of dying young rise to 2 out of 5, or 41 percent. An individual account program would permit some of these people to leave some of their

contributions and interest as a bequest to their heirs after they pass away.

I understand that the Office of the Actuary is doing some new analysis on patterns of redistribution under Social Security by race and sex, and I would like to urge that this report be provided to the commission to inform our further deliberations.

In closing, as an educator I commend the staff for its diligence, its honesty, and its hard work in helping educate the American public on Social Security issues. I look forward to our continued work and discussion. I and many fellow Democrats believe that increasing taxes while keeping the current troubled system in place is the wrong way to go. I and many fellow Democrats believe that personal accounts are a way to structure real increases in saving while reducing political risk. They are a way to enable people to diversify their investments and a way to increase individual rather than government ownership of the nation's resources. Thank you.

CHAIRMAN MOYNIHAN: Well, we can see how fortunate those students in Pennsylvania are. Let's hear from the Texas A&M right now and I think a somewhat different political perspective.

DR. SAVING: Thank you, Mr. Chairman. Although the economics of this are straight forward, so I think if you look at the economists as a group as a party rather than political

parties, I think you'll discover that we're much more similar than the political parties appear to be.

I think the people who wrote the report, the staff, are to be commended on doing the one thing the report was supposed to do, and that was to outline what the options are. And the options are real. We can't, by simply saying that everything is fine, change the fact that there are real things that are going to happen, and combined with other entitlement programs, and the report makes this also clear, that by 2060 the entitlement programs that we have are going to totally exhaust the federal budget if it remains at 20 percent of gross domestic product. Since that cannot happen, future Congresses are going to have to face whether or not they are going to continue any current programs that they're supplying to workers or continue the programs that they're supplying to retirees. That's going to be a very hard choice, but it's a choice that has to be made and it's pointed out in the program.

It lays out no amount of rhetoric will change the fact that when the baby boomers retire, they are going to consume real food, drive real cars, live in real apartments, and consume real health care. All we have to work with is the output of the nation. We don't have anything else. Government cannot supply anything; it doesn't produce anything. It only takes from the people who do produce and gives it to other people. In this case, we're talking about it gives it to old people, like me or

Pat, and takes it from the young people. That's all we can do. We can't do anything more than that. To argue that the Trust Fund is safe because it's based on, I quote here, "the ironclad commitment of the U.S. government to honor its debt obligations."

Now, the U.S. government doesn't have any assets. The assets are all you people who are sitting out here and the fact that you produce output, because that's what old people are going to consume. Those are the assets, and when we start to cash in the so-called Trust Fund, it means we're going to come to you and say we're going to give old people more, you're going to have to consume less. There isn't any other way to do that.

I have one issue I think the Trust Fund -- I mean our interim report should make clear, and that is that borrowing and taxing to solve this problem in the future have exactly the same implications for the amount that workers are going to get to consume. It doesn't make any difference when old people consume more out of the pie that we have whether we decide to get the more from workers by giving them a bond that says in the future some future worker is going to give up a lot of income in consumption to pay you back or whether we tax you. It means you still get to consume less. Workers will have to consume less in the future, and there isn't any other way out of this, unless we try to increase the size of the pie, and that's what a program that attempts to make real investment does. It tries to make future income bigger so that future workers when they give up

consumption will have some more left for themselves.

Again, I commend the people who put the report together in taking our views and stating very clearly what the options are, and I think everyone has to say this is not about politics.

It's about the economics of this, and we can't change the budget constraint. We can't change our output, unless we invest more.

Thank you.

CHAIRMAN MOYNIHAN: Thank you, sir. Tom, do you think it would be a useful idea that in the final report that does come that you and I have a statement saying we've already got ours, so we really are disinterested?

(Laughter)

CHAIRMAN MOYNIHAN: Now to our distinguished once and future academic Mr. Pozen.

MR. POZEN: Thank you, Senator Moynihan. I want to make four main points here. The first point deals with, and the second point both, the debate that I'm reading in the press about the 2038 date and the 2016 date. I guess one nice thing is that there seems to be an agreement that at least in 2038, even among the critics, there is a very serious problem in 2038, and that the system is technical insolvent in 2038, and there would be a need to either cut benefits or raise payroll taxes by 25 to 30 percent if we do nothing.

Now, for people who take solace in the fact that they think that 2016 is not the right date and 2038 is the right date,

I'd only want to point out to them that if you're going to solve a problem of that magnitude in 2038, we better start right away, because this is a long-term problem and the only effective solution is a long-term solution. So I myself would not take a lot of comfort in the fact that you have this big a problem but it's in 2038.

The other thing that's related to this, I hear a lot of people in private conversations and public saying why can't we just grow out of the problem. I think the report does a very good job in addressing that issue. It is, of course, a reasonable thing for people to say gee, given the tough decisions here, why can't we just grow out of the problem. And we have been blessed over the last 5 years or so with a very significant increase in productivity. It is unclear to me whether we will repeat that increase in productivity over the next 10 or 20 years, but the report makes clear that even if we do, then wages will increase. If productivity increases, wages will increase, and benefit obligations will go up. So arithmetically it's not possible to grow out of this problem. You might alter the 2038 date to 2040 or 2046, but we're talking calibration, and it is just simply not possible to grow out of the problem by having more growth.

The second point I want to make relates to the year 2016. Here I think it is very unfortunate that some people have been saying that well, the commission is taking the position that

we're just trying to scare people because all benefits will be cut in 2016. In fact, the report doesn't say that. There's no one on the commission who is saying that. A much more I think thoughtful and subtle point is being made: that in 2016 when the Trust Fund has to start redeeming these Treasury bonds, then the Treasury will have to find resources to redeem them with, and that there will be a very serious competition or trade-off between the redemption of these bonds and other very legitimate programs, such as education, defense, et cetera.

Now, I think that's a very important point, and that's the point the commission report is trying to make: that in 2016 we will face a real resource trade-off in which real decisions will have to be made in Congress about how are we going to deal with these bonds that are being redeemed. Are we going to cut other programs? Are we going to issue more debt? These are the sorts of questions.

Now, one of the things I've been struggling with is some people say well, these are very good bonds. They're Treasury bonds. Why should we worry? I would agree that these are very high credit bonds, and I think one useful way to think about this is, suppose a subsidiary of a company held the bonds of a parent that was a triple A credit. Yes, the subsidiary could get those bonds paid back by the parent, but then the total value of the corporate entity wouldn't change at all. And here in a sense we have the same sort of circularity issue. We have

very good bonds, but they're held by one arm of the government and they are going to be redeemed by the other. So the government as a whole is pretty much in the same situation, the redemption of the bonds doesn't really contribute to the well-being of the whole operation, and we still face those real resource issues.

The third point I want to make is relating to lower income, lower wage workers and minorities. I think Olivia has done an excellent job talking about women, and Bob Johnson did an excellent job on African Americans. I think I personally was educated by the report, because I assumed that since the percentage of career earnings that went to lower income people was higher than higher income people that they were doing better, but once these mortality issues are taken into account, then obviously there isn't a progressivity in the system. Now again, I've been reading things that people say, oh no, it really is a little progressive, but I think if you look at all the studies together, at most you can say, well, maybe it's about equal for low income people and high income people if you take all this in account.

But in my view, that's not good enough. I believe that the system should be progressive, and I get to Sam Beard's point, is the people who say that if we change the system, if we have individual accounts, that these will be bad for minorities or bad for women or bad for lower wage income. These people must be

making some sort of assumption about the design of the system that I don't know, because I think that the system can easily be designed to make Social Security more progressive, and I personally would support that. As Sam points out, this system can be designed for lower wage people to make the guarantees better. We don't have to have the same guarantee for all groups of people, and we don't have to have the same system for all groups of people. So I personally think that we can make the new system really progressive, as opposed to the existing system which at best is the same for lower income and higher income people.

The last point I want to make, the fourth point, is on the PR battle. I feel like how the question is defined, how the problem is defined, is critical. If you believe that there is a lockbox with lots of money sitting in it, then obviously you think that there isn't much of a problem to be dealt with. I am concerned that we as commission members have not spoken out enough with the press. We of course are waiting for this report, are all trying to give our comments constructively, but that meanwhile people are taking shots at us all around, and I feel like there are a lot of very thoughtful points made here, there's been a lot of mischaracterization of our positions in our press, and I believe that it's important that we get out and address these issues. I think that if we let the critics get away with what I view as cheap shots as sort of saying well, we don't like

any change without any proposals, that Senator Bob Kerrey, former Senator Bob Kerrey is right, this is the Do-Nothing Plan, and we have to convince the public that the Do-Nothing Plan, if you are just against all change, this is the Do-Nothing Plan. And the Do-Nothing Plan cuts benefits or raises payroll taxes by 25 to 30 percent, and that's -- we have to make sure that the people who are against all change bear the burden of the Do-Nothing Plan from a PR perspective. Thank you.

CHAIRMAN MOYNIHAN: We thank you, sir. Coming from yourself, that's a very powerful statement. We are going to talk about the latter subject as we get around, and we do go around. Mr. Mayor. You've had some problems with borrowing and spending I believe in your time.

MR. VARGAS: Thank you, Senator. Actually, you reminded me that I've actually been at this since 1994 as one of the -- as I think the only member that was on the previous Advisory Council.

CHAIRMAN MOYNIHAN: That's right.

MR. VARGAS: To Olivia's point, I personally have seen our options diminish, because we did have an opportunity then when we presented our recommendations and saw what we see today only now with fewer options, and as time goes on that will continue. So, urge again that the time is now to do something, not to do nothing, but to do something.

First, I wanted to thank the staff for incorporating I

think the spirit of what all of us on this commission -- that's difficult to do, were looking for in an interim report. It was clear, plain spoken and I think comprehensive, and I want to emphasize again, interim report. I've been watching the news and reading the papers, and I thought I'd missed a couple of meetings, because there were things that they were saying about -- I know not me in particular, but I didn't remember having proposed any specific plans or solutions, or as Bob said, solutions that could actually strengthen the program for the people that I'm concerned about, low wage earners, people in the Hispanic community, Latinos, people in my community, a working class community where 25 percent of the people live below poverty. I'm not here to gut Social Security; I'm here to strengthen it. So I would caution everyone to, again, recognize that this is an interim report. And we are only now, not even yet, beginning to consider what those options are, obviously with a focus on creating some sort of private accounts, which I strongly favor for many of the same reasons that have already been proposed. So again, I would just caution everyone to, again -- not us, but folks outside this room and in this room that are already opposed to what we're proposing before we've even proposed anything.

The only thing that I would add in terms of a recommendation for the interim report, and it's handled to some degree in the summary letter at the beginning, but it's

interesting to me. Even after participating in this since 1994, you hear different interpretations of the numbers, and it sometimes still confuses me about what folks are trying to do with those numbers. So to some degree, to the degree that we can create a very simple, I don't know, PowerPoint presentation that kind of lays out in a few pages kind of the issues that we've addressed in terms of the shortfall, the 2016 date, the 2038 date, what it really means in as plain a language as possible. I want my 11-year-old son to be able to understand, if possible, what this really means.

Finally, again I think we've met the goals in the interim report. One is to educate the public about the problem, and secondly now to get into the design of the problem, and I just want to reiterate again that I just hope that we're able to have an environment here in the Capitol that allows us, us and also the Congress who will ultimately create law, to craft something that really does strengthen Social Security. From the tone of the debate so far and from what I've seen in press releases, it doesn't look like that's the case, and that's unfortunate. I'm hopeful that we'll be able to change course and have folks really come to the table with open minds about how we can strengthen Social Security. Thank you.

CHAIRMAN MOYNIHAN: Fidel, I wish you well with that 11-year-old son, but I'd settle for 40-year-old. We're just at the beginning here.

MR. VARGAS: Yes, it's not over.

CHAIRMAN MOYNIHAN: Not at all. Isn't that right,  
Gwen?

MS. KING: ---

CHAIRMAN MOYNIHAN: You're next. Commissioner.

MS. KING: Thank you, Mr. Chairman. The advantage of sitting on this side of the hollow square is that by the time your turn comes around, most of what you planned to say has already been said, and very well stated I might add.

Senator, I really do appreciate your giving us the background you gave us, because if you read only the critical comments that continue to show up in the press, you'd think that we were the first ones who ever came up with these ideas. It's really nice to have the context that a lot of this has been talked about and thought about before. We do indeed have a problem.

So I, too, need to say thank you to Chuck and his staff and to Steve for putting together the thoughts that we asked you to put together in that plain English that I asked you to do, and it's going to be more important I think going forward as we begin to look at solutions, because people will have to understand where we're coming from.

I am astounded, innocent perhaps but astounded, that something so plainly laid out could be so quickly and thoroughly misunderstood and misinterpreted by people who do not wish us

well. I agree with Bob; it's going to be very important for us to continue to express ourselves and to let people know what it is and what it is not that we are about. The debate will continue. People of goodwill will see the problem as a glass half empty or a glass half full, but we still I think have a responsibility to press on.

As a former Commissioner of Social Security, I have made a number of the arguments that I have heard people who are just I think fearful of taking a new approach are making today. Of course, our Trust Fund is backed by the full faith and credit of the United States government. Who better? They are going to meet the commitment. I think as we look at the magnitude of the problem, we realize that we can take some action that will mitigate the requirement for the United States government to take such draconian action as will be necessary if indeed we do nothing. So I think we are focused on preventing a real crisis.

We are focused on taking the 37 years or the 15 years to get something going, and I think we have that responsibility to the American people and we should not shirk from it.

Others have spoken about progressivity. I will not. I do want to stress the importance of a program that no one is talking about eliminating, and that is the survivors' program. It is true and you've heard all the statistics here today, that blacks do benefit from disability and survivors' programs at a much higher rate. I think that is so important to continue, but

in my reading of everything that we are charged to do, no one is suggesting otherwise, and I think it is important that the public understand that.

My views have indeed evolved over the years, helped in large measure by the writing of a *Newsweek* columnist named Alan Sloane. He's probably the only columnist that I have ever written to and said well done, the only columnist. Those of you who know me personally will be shocked by that, but he's probably the only one I've ever written to. And his column this week I think is equally compelling. I ask you all to look at it. I'm not pushing the letter. I'll give you copies I guess from something else, but look at it. It's a very compelling treatment of the Trust Fund issue, and we don't have to say very much more about it.

The asset and the Social Security fund is our government's promise to pay back what it has borrowed. So, of course when you ask the next question, how will it pay back \$1 trillion, I think you get a very interesting answer. The problem perhaps becomes a lot clearer.

For those of us who do support personal retirement accounts or some iteration of that, I think it's also important to talk about the need to counsel people who will perhaps for the first time be asked to look at personal investments. If any of us goes to an investment counselor, the first thing they will do is sit down and counsel you on what your tolerance is for risk

and where you might be taking your planned account. I think we need to set aside resources to do that for people who will be taking on perhaps something for the first time in managing retirement accounts, and we need to be very, very circumspect and conservative in the approach that we take there.

So in sum, I think we've laid out a lot of the problems. I don't think it will be the responsibility of this body to try to find solutions to every one of the problems that we laid out. I would ask us to look at work that has been done very carefully by others. Particularly, I just received the Social Security Advisory Board's latest publication on what action should be taken soon. They've laid out a whole litany of approaches that ought to be, I think, folded into some of the work we do. We are not going to rehash the ground that they have so carefully looked at, but I do think it's going to be very, very important to keep the focus, to do our deliberations and our work without being distracted by the outside voices that would take us off our course.

Again, I too commend the staff of this group for listening to us and for the work you've done, and also to this commission for taking on the task that I think is going to put us on the path of getting away from the problem that we see and maybe a little daylight at the end of the day. Thank you, Mr. Chairman.

CHAIRMAN MOYNIHAN: Thank you, commissioner. I think

the Social Security Advisory Board -- if we could make it available to our members, the commission. It's a very handy piece of work and well read. Let me just say -- affirm what you have said. There is no question that we are committed to seeing the survivors' benefit and the disability benefits maintained. They are integral to the program.

It just happens -- you'll have to get used to this, fellows, but in an article in *The New Yorker* recently, which began shortly ---, "In the middle of the last century, Daniel Patrick Moynihan wrote an article." Got that? Middle of the what?

(Laughter)

CHAIRMAN MOYNIHAN: Oh, yes. But I knew Francis Perkins. She was very active in the '60s in Kennedy's Administration, and you must remember that when as industrial commissioner in Albany under Al Smith and so forth, the rate of industrial accidents was so very high in our country. There were widows everywhere, and not to provide for them and their children would have seemed why have a program? It's not just retirement.

That happened to the ones who got lucky, but the reality was the fellows who were lost in the mill and there were widows and children who were left behind. So we don't even -- we're with you, Gwen, and Tim Penny. I think we're with you as well.

MR. PENNY: My turn, right?

CHAIRMAN MOYNIHAN: Yes, sir.

MR. PENNY: Thank you, Mr. Chairman. Everybody has commended the staff. So do I. I want to speak to one aspect of the report, and that is the tone of the report, because rightfully, this report lends a sense of urgency to this issue. It's interesting to observe that one of the criticisms that has been leveled over the last seven days is that this report is unnecessarily alarming. We ought to be alarmed when in just a few short years the baby boom cohort hits retirement age, begins to hit retirement age, and the costs of this system begin to explode. As was mentioned by Mr. Parsky earlier, better to plan ahead for that eventuality and to phase in necessary and modest reforms now so that we can make this adjustment gradually, than to wait until the last minute when our options will be limited and the choices will be unlovely to say the least.

We've been there before. We've done that before. And it is living proof that on an issue like this we too often wait not only for a sense of urgency, but for the moment of emergency.

In 1983, my first year in Congress, when we voted for the Social Security reforms recommended by what is now referred to as the Greenspan Commission, we were in the middle of a crisis. We were taking money out of the Medicare fund to pay monthly Social Security benefits. The emergency was very real, and even then it took the leadership of a Senator named Moynihan and a colleague named Dole to put that commission back on track and to give us a report that we could ultimately support on a bipartisan basis.

So those who criticize the tone of the report because of its sense of urgency are in my view crediting this report for one of its strongest features. We need a sense of urgency around this issue in order to challenge Americans and America's political leaders to deal with this issue now while there is time for us to phase in the necessary reforms.

Those who criticize this report also seem to hang their hat on the Trust Fund. How have we used the surplus which is credited to that Trust Fund over the course of time? Up until recently we spent it, because we were overspending the rest of the budget. Now, arguably a better use of that surplus, we're paying off some debt, which in a broad sense helps us with the totality of the federal budget over the longer term, but it's not as if there's any real money here. And when we assign interest to the money in the Trust Fund, we're basically promising that somehow we'll come up with that money as well.

The bottom line is the Trust Fund is backed by the full faith and credit of the Federal government. I want to stress the word "credit," because if there isn't money there, it's backed by our ability to borrow to put money there. But I don't think that's good enough, because it basically -- if we wait and rely on the, quote, unquote, "credit" of the Federal government, we're basically saying that it's alright to just ignore this problem today and push the cost of solving this problem off on to future taxpayers, many of whom aren't even voting age today, many of

whom aren't even born today. I don't think that's responsible public policy.

Most of the critics seem to insist that we can solve this problem with no benefit adjustments. So that means that their alternatives to make the Trust Fund real are essentially these three: to raise taxes; to cut into the other programs of government, domestic and defense, in order to make money available for the Social Security system; or again, to rely upon enormous amounts of debt, tens of trillions of debt, over the next several decades.

The chart at the front of the room to Chairman Moynihan's immediate left is the baseline for this debate. The blue line indicates the amount of revenue that we can project for the Social Security system on into the future. The dotted red line indicates the amount of benefit obligations that we are making in the program. This, in my view, is the baseline against which all reform plans must be measured, and the success of any reform plan ought to be gauged by the degree to which we exceed that blue line and the duration with which we stay above that blue line. There's no denying that year in and year out there may be situations in which we cannot keep this underlying Social Security program in absolute balance, but again, I think any reform plan, if it is to be taken seriously, ought to begin to bring that dotted red line closer to the blue line and reduce the total debt that we are exposing future taxpayers to.

CHAIRMAN MOYNIHAN: For those who aren't up close, this is 2016.

MR. PENNY: 2016. Thank you, Mr. Chairman, for stressing that, because I wanted to include that in my closing remark, which is this: 2016, the point at which those lines cross, is not that far into the future. There is a reason for urgency. I applaud the report for its sense of urgency. I believe it does set the stage for the kind of debate that needs to occur. It does establish the baseline against which all responsible plans ought to be measured. Many of the critics of this commission's work won't do a thing to change that chart, and that is unacceptable. I believe this interim report will help set the stage for our ongoing work and the recommendations that will ultimately flow from this commission's work. Thank you.

CHAIRMAN MOYNIHAN: Thank you, sir. I wonder if we might not consider including this in our report as tables at the end.

MR. BLAHOUS: Yes. We'll include it with the report.

CHAIRMAN MOYNIHAN: And I'd just like to say to Congressman Penny, in that 1983 intense 10 days that we put together a package after we had deadlocked for a year on a formal commission, Bob Myers, the chief actuary Steve Goss will know and revere, who came to Washington as a graduate student of Edmund Witty who was chairman of the Committee on Economic Security that proposed Social Security, he had to listen to Bob Myers say

something he'd probably never thought he would be saying, which is that in six months' time we will not be able to pay benefits.

I don't know quite if it was six months, but he was saying we will not get through this year without defaulting. So don't think emergencies can't happen. It's just that they have been overcome. Mario Rodriguez.

MR. RODRIGUEZ: Well, that's a hard act to follow there, Tim. Anyhow, I'd like to commend the staff for putting together a very well laid out interim report. What was alarming to me was to see how the minority community is affected by this. I mean in particular African Americans, the women, and the Hispanics. It's a shame and a tragedy that Hispanics in this country have available in their savings account, CDs, retirement -- set aside for retirement \$1,200 on the average; the African American, \$3,000. That tells us right now this is about helping the people that need to be helped, the Americans that need to be helped in this country. It's not about helping the rich. This is about helping the medium and the lower income people that really need Social Security. So I'm offended when we're getting criticized, for out there saying we're going to destroy Social Security. We're not going to destroy Social Security. What we're here to do is help save Social Security. So that really bothers me when we're getting attacked like we are.

There is a recent survey commissioned last week that

Hispanics in this country, 62 percent favor taking a portion of their Social Security and investing it in the market. So this is something that's real. This is something that needs to happen in order to help Americans in this country for their future.

So in saying this, I just feel that we need to stay on track. We're going to be criticized a lot, but the bottom line, we're here to help the American public in this country. Thank you.

CHAIRMAN MOYNIHAN: Thank you. Mario, could we get that survey, the questionnaire you just described?

MR. RODRIGUEZ: Absolutely. Senator, in fact I have a copy for each of the commissioners with me.

CHAIRMAN MOYNIHAN: Oh, good. Oh, good. Excellent. Thank you. Estelle James.

DR. JAMES: Well, first of all, I'd like to congratulate the staff on preparing what I consider an excellent report. As you know, I've already told you I thought it was an excellent report because it identified the key problems in a very readable way, and I think that was this task. In the report we identify 2016 as a critical year for Social Security, and this has aroused a lot of objections because it moves the sort of D-Day closer and makes the whole problem more imminent. So I would like to explain in my own words why the year 2016 is important and possibly some of these words could be incorporated into the final version of the report. Of course, what I say will echo

what several people around the table have already said, but everyone says things in a slightly different way. So I hope you will bear with the redundancy.

Now, we all know that during the past 15 years Social Security has been running a cash flow surplus every year, and this extra cash has been turned over to the U.S. Treasury which used the money to finance government expenditures, and the Treasury issued IOUs to the Social Security Trust Fund in exchange. Now, through these IOUs, the government is in effect borrowing from Social Security, and the government has an obligation to repay that money when it's needed. Social Security will need that money starting in 2016 when the cash flow deficit becomes negative instead of positive. That is, the expenditures, that line that we just talked about, the expenditures will exceed the incoming contributions in 2016 and by ever increasing amounts after 2016, as you can see that line go up. This happens, as we all know, because the baby boomers start to retire, so more people are collecting benefits and fewer people are contributing.

Now, at that point the Social Security Trust Fund will begin redeeming the government IOUs, and of course, everyone expects the government to honor those IOUs. No one questions that, so I think it's really strange and irritating for our opponents out there to be insinuating that we're questioning whether the government will do that. Of course the government will do that. Social Security will get this money. However,

finding the money to give to Social Security will pose a big problem for the rest of the government budget starting in 2016. That's what we have to recognize, and perhaps the report could emphasize this a bit more.

So I just want to spell out some of the implications of what will happen at that point. Now first, we could compare the borrowing from Social Security with borrowing from the rest of the public. When the government borrows from members of the general public, for example, from you or me or private pension funds who hold government bonds, the government issues bonds, and these bonds appear on the government's balance sheet. Right now almost \$3 trillion in bonds appear on the government's balance sheet. However, when the government borrows from Social Security, the IOUs that it issues do not appear on the government's balance sheet. This is because they are sums that are owed by one part of government to another part, so it's an internal transaction. This is a debt, but it's a hidden debt. We've hardly known that it's there, and people are kind of disturbed when we begin talking about it. In 2016 we will have to, we will be forced to, recognize that hidden debt and to deal with it, and that will not be easy.

Now, just to give you an idea of the magnitudes involved, at present the Social Security Trust Fund is holding government IOUs that are equivalent to about \$1 trillion, and it's projected that by 2016 this will grow to over \$3 trillion in

current dollars, that is, adjusted for inflation. Now, just to get an idea of what that magnitude implies, \$3 trillion is more than our entire national debt, that is that stated explicit debt that the public is holding. It's more than that entire debt is today, and it's much more than our entire national budget is today. So these are not trivial amounts that the government will have to start redeeming in 2016. By 2016 Social Security will have lent to the Treasury more than all other lenders have lent to the Treasury today. Now that's a lot of money, and when Social Security begins to redeem those IOUs in 2016, the Treasury will have to come up with a lot of money from somewhere else.

Now, we all know the places that the Treasury can look.

First of all, the government may try to raise this money by selling bonds to other parties. That's the first line of defense, you might say. This would have the effect of increasing the national debt that appears on our balance sheet, because the money will now be owed to people outside of the government. We may have to pay a higher interest rate to sell these additional bonds in the market place, and we'll have to pay that interest rate out in real money every year, instead of making a bookkeeping notation. So at a time when we're trying to reduce the debt, we will instead find this explicit debt on the books increasing and the debt service will be increasing, and this burden will eventually have to be paid off by future generations.

Now, if the government decides that it should not raise

the debt, it then will be faced with a difficult choice of raising taxes or cutting spending on other important national priorities. For example, this might include cuts in health and educational spending, which we all care about and which are two other places that Congress might look at that point in order to honor these IOUs to Social Security. None of these will be easy choices to make.

Now, when we reach 2038, all those IOUs in the Trust Fund will be fully redeemed, and the money will have been paid out to beneficiaries. At that point the choices will become even more difficult. The Trust Fund won't have any IOUs, but the government will still have a moral obligation to pay millions of pensioners who have contributed all their lives, and they're expecting to receive Social Security benefits in return. On the one hand, we won't want to let them down. No one will want to do that. But on the other hand, we'll have a hard time coming up with the money.

This financing gap, as was already stated, this financing gap will continue indefinitely. There's no end. It's a permanent problem. Again, the choices will be: do more explicit borrowing, which will lead to a larger national debt, raise taxes, or cut spending on benefits or other important goods. Those are the choices. They will be the choices in 2038, and they are the same choices that we will have to make by 2016. That's why 2016 is a critical year. We won't be able to avoid

making those choices any longer.

Now, intelligent people out there can disagree on the solution. We don't all see the world the same way, but they cannot disagree that a problem is looming ahead of us. That is irresponsible. We will have to face that problem in 2016 whether we like it or not. The IOUs will keep growing. We already saw they would grow from \$1 trillion to \$3 trillion in 2016, and the choices will become more painful if we keep our heads in the sand and wait until 2016 arrives. They will be much easier and we'll have much more degrees of freedom, as everyone here recognizes, if we start planning and filling in the gap now.

The commission's job, a thankless job in a way, is to begin taking responsibility for solving this problem. So I also have a message to all those people out there who have been objecting to this report. It would be much more constructive, much more helpful to the country if instead of simply attacking the commission for reminding us of the fact that we face an unpleasant problem, if you came up with solutions, if you helped us find solutions for the problem. There are diverse solutions, and we would welcome your input. Thank you.

CHAIRMAN MOYNIHAN: A high-minded thought.

(Laughter)

CHAIRMAN MOYNIHAN: On va voir. Bill Frenzel. You have been studiously working away. This is our artist in resident, if you don't know that. You want to show us some of

your product for the morning?

MR. FRENZEL: Well --

CHAIRMAN MOYNIHAN: There you are. That's pretty good.  
How do you -- hey, hand that over here.

(Laughter)

MR. FRENZEL: That will cost you money, Mr. Chairman.

CHAIRMAN MOYNIHAN: That's not bad.

MR. FRENZEL: I don't give those out to just anybody.

CHAIRMAN MOYNIHAN: I thought maybe as a member of the  
commission you might consider the possibility --

MR. FRENZEL: Well, we might be able to make an  
arrangement, depending on the language. Mr. Chairman and other  
Mr. Chairman and fellow members of the commission, thank you very  
much. I have been sort of basking in the brilliance and the  
articulation and general all around good looks of my colleagues  
here. It has been I think a wonderful morning, and all I can say  
is, Mr. Chairman, I wish I had said all the things that they  
said, because they said them well and I support all of them.

I want to start making the point, however, to thank the  
people who have sent emails and letters to the commission. The  
staff has faithfully forwarded them to members of the commission.

We are trying to read them. We are getting a couple inches of  
them each week, in addition to the notebooks, the books, and the  
longer papers which are being thrust upon us. Many of us are  
private citizens. We don't have any way to respond to you, and

so I'd like to say right now, thank you for your ideas, and to tell you that they are being read and they are being appreciated.

Now unfortunately, not all of your instructions will be followed, however. I do note that in many of these communications, the communicators do not seem to have what I would consider to be a full understanding of the Social Security system. We can't handle that all by ourselves on this commission, but this interim report, at least in my view, is an attempt by us to tell the American people what is the problem with Social Security and what is in fact the case with many of the elements of Social Security. It is now being roundly criticized on the street, whereupon I was stuck by a taxicab. After thorough inspection, it was determined that the taxi was okay, and it proceeded. I thought at the time that they probably thought this was Geneva and this was the headquarters of the WTL. However, I heard their chant being given to them by a chap with a bullhorn, and it was, "Hey, hey, ho, ho, Bushy Wushy has to go." So they were in the wrong place. They wanted Pennsylvania Avenue, I guess, about 1600.

But that's what I think of some of the criticism that we have received, a sort of know-nothing Luddite approach, to do nothing. For those who are critical of this draft report, which has not been approved yet of course, I wonder what they will ever do if we approve something. That's a little frightening to think of, but I hope people will do us the favor of reading our report.

I believe that the draft which the staff has presented us, as many members have indicated already, really does represent the instructions that were given to the staff at our last meeting, and there's a pretty good statement, we'll all fly specket (sic). We have already done some of that. It was amended a number of times so far, but in my judgment the most important message of the draft is what all of you zeroed in on, and it is that the worst thing that we can do is to do nothing. That is not an alternative. Inaction is the enemy of the system.

In 1981 the third rail of politics scared the Congress into not doing anything for a couple of years until, as my colleague Tim Penny pointed out, we were left with the wonderful compromise engineered by one of our co-chairman. And what was it? It was raising taxes and cutting benefits. We waited too long in that case, and we cannot afford to wait too long in this case. Again, my congratulations to my colleagues, Mr. Chairmen, and I want you to know I'm letting you out in time to eat lunch.

CHAIRMAN MOYNIHAN: That was a very fine statement, sir, but I have to tell you, having lunch does not have the priority this commission is hearing from the co-chairmen, but we will get lunch. Don't you doubt it. Thank you very much, sir.

MR. PARSONS: It will be before noon.

CHAIRMAN MOYNIHAN: No, no, no. Come on.

MR. PARSONS: No, in part because, as a great man once said, "Everything has been said." It's just that not everybody

said it. But to try and be brief and to bring this all together, I would again remind us all and the public who is here that this is a draft of an interim report. What did we set out to do in the interim report? Really two things. One, to draw attention to the problem that we perceive and others perceive that the Social Security system is beset with. I think on that score, you'd have to give us an A. We've certainly drawn some attention to it. The second thing that we set out to do in this interim report was to illuminate the problem, to educate people as to what the nature of the problem was, in the hope that that might tease out from the public and from the members of this commission as well, as well as staff, some suggested solutions on how are we going to deal with this problem once we all acknowledge that it exists and we understand its dimension. In terms of illuminating the problem, I'm not sure I give us quite as high marks as I gave us in terms of drawing attention to it.

I think that the comments that were made around this table hopefully have carried by the electronic media and the print media far and wide will help to further illuminate, and in that sense I had two points that I want to go back to. They've been touched on, but I want to touch on them again from the illumination perspective. But before doing that, I wanted to say a word about tone. Tim mentioned that the tone was interpreted as being urgent, and I do think the problem is urgent because we need to get started with solutions now. However, there were some

parts of the report that maybe were more urgent or at least ambiguous and could lend themselves to being alarmist than I think we need.

I take credit for foisting what may be an unfortunate phrase upon the draft report. In the preface which Senator Moynihan and I worked on, we say the system is broken. Maybe that goes too far. Certainly it's open to lots of different interpretation. Currently, as was pointed out by several people including Pat this morning, there is no jeopardy to current beneficiaries in terms of getting their checks, the soon to retire. In fact, our charge is to make sure that those benefits stay intact. What is clear is that the system as currently constructed is unsustainable, financially unsustainable.

CHAIRMAN MOYNIHAN: Yes, yes, yes, yes.

MR. PARSONS: It just can't go on the way it is today.

What that means is, that sometime between now and the point in time when the system does collapse because it's financially unsustainable, a solution will be put in place. A fix will be put in place, and our argument, our fundamental perspective is that dealing with that problem sooner rather than later is going to make the ultimate solution more palatable to more people, less dramatic, less draconian, less crisis-driven. So our plea, if you will, not only to the public at large but to those who have criticisms, some legitimate, some not, of the direction the commission is going in, is let's not stick our head in the sand

and refuse to acknowledge that we have a problem and a problem of a nature where a solution applied now or sooner is going to yield a better result than waiting until the crisis moment actually strikes.

The two points that I'd like to come back to for further illumination, one, just in reading the commentary of some of the people who criticize, they refer to -- and they set up little charts and they refer to existing Social Security benefits and what they presume this commission is going to recommend, even though we haven't recommended anything by way of solution yet, but they -- replete on the existing side are terms like "guaranteed," "predictable" retirement benefits. This "guarantee" of lifetime income, guarantee, guarantee, guarantee.

One of the things that we hope not only the critics but the American public focuses on is -- I am a lawyer by training. I have since taken honest work, but by training I'm a lawyer and words have meanings. There is no guarantee in the existing system.

One of the things we pointed out in our cover letter, the Supreme Court of the United States has said that individuals do not have a legal right in Social Security benefits. They can be changed. They can be eliminated. Flemming versus Nestor. What you do have, and several of my fellow commissioners use the term, you have a "promise," but a promise frankly from people you don't even know, because who is going to be in Congress in the

year 2016 or the year 2025 or the year 2040? I have no idea. I just know it's not going to be Pat or me. Those are the people who the public is going to have to rely on to keep the promise. There are no guarantees, and folks seem to think that somehow the current system is guaranteed and this commission, even by raising questions, is jeopardizing or threatening that guarantee. What we're trying to do is strengthen the promise, not diminish the presumed guarantee, because there isn't one.

Secondly, and I'm going to go back to this issue of 2016 again, only because I know that we're visiting millions of American households thanks to C-SPAN and some others and we can't overemphasize this point of what happens in 2016. Gwendolyn mentioned Alan Sloane. It's not customary for me to give a lot of visibility, let alone praise, to one of my competitors, but in this case he deserves it in his article in *Newsweek*.

So that you understand what this whole debate about what happens in 2016, I'm going to paraphrase his article, where he said think of it this way. Let's assume any one of you or -- well, take me, because I'm a perfect example. I decide at some point that it would be good for me to set up a retirement account for myself. So I set up the account, and I have every good intention of funding it, of putting money into the account, so that when I retire I've got some money set aside. However, I also, as you remember from the last commission, like the good life, and I can't quite make my income cover both my current

lifestyle and my obligation to make commitments to my retirement account. So instead of actually putting cash into my retirement account, I put an IOU. So instead of sending \$1,000 a month or whatever it is to the retirement account, I write a little IOU \$1,000 and I sign it Dick Parsons. Then in the fullness of time it comes time for me to retire. I'm now looking to my retirement account to fund my retirement, and what I have in there are hundreds upon hundreds of \$1,000 IOUs. Well, I've got good credit. I can make it good, but frankly, what I've got to do to get cash in there, because as Tom Saving says, I still have that lifestyle that consumes real cash, I either have to keep working to pay off the IOUs or I have to borrow money from somebody to pay off the IOUs or I've got to sell something to pay off the IOUs. The IOUs, since they are from myself to myself, they're real but they have no financial gravitas. They're not substantial. And I've got to continue to do something in order to redeem those promises. That's the situation our government is in.

Our government has given to the Social Security Trust Fund, as Estelle said, trillions of dollars worth of IOUs, and when it comes time to pay off those IOUs, the government is going to have to do something. It's either going to have to raise taxes, it's going to have to cut other spending, or it's going to have to go back to the debt markets and borrow. All this commission is saying is that that is the point in time at which

this problem really begins to bite, and let's not wait until then to try and find a solution. Let's use the time we have from now until then to restructure the system in a way that creates real assets behind the promise, so that it is more certain of being fulfilled than it is currently, that creates more equity within the system, as Bob and others have said, for particularly single women and minorities, and that creates a greater sense of confidence on the part of the American people and where are we going with Social Security.

I will say this. Those who argue that we are creating fear tactics and alarm among people, I know from countless numbers of conversations that people my age and slightly younger currently do not believe, I mean they really -- they understand that there are no guarantees in Social Security and they don't believe that it's going to be there for them when they get older.

So we're not talking about taking anything away from somebody who's got it now. I would remind us all that the very Executive Order that set up this commission said that one of our charges is to protect current levels of benefits --

CHAIRMAN MOYNIHAN: Exactly. Exactly.

MR. PARSONS: -- and benefits for those soon to retire. What we're talking about is creating a sense of genuine confidence and optimism on the part of younger Americans who are currently funding the system and who have a right to look forward to something being there when they retire. So thank you,

Mr. Chairman.

CHAIRMAN MOYNIHAN: Mr. Chairman, but couldn't I ask -- suggest that we have a further charge, which is not just to preserve this existing system and existing benefits, but as Bob has suggested and Mario has suggested, to go in a pattern that Franklin Roosevelt would have loved, to say workers can end up their working lives with a measure of wealth.

MR. PARSONS: I think the two go hand-in-hand actually.

CHAIRMAN MOYNIHAN: Yes. Sure.

MR. PARSONS: Because creating confidence in part because you control some portion of your own destiny and you have a legal entitlement to it.

CHAIRMAN MOYNIHAN: Yes. You do have, though, funding as you've said that the Court ruled. That was Secretary of ATW, funding under Mr. Eisenhower. There's no property right in Social Security. There would be a property right in individual accounts. Well, any more comments, or shall we adjourn for a sandwich and then we'll be back at 2:00 o'clock?

MR. : One o'clock.

CHAIRMAN MOYNIHAN: At 1:00 o'clock, and we'll continue until 2:00. Then you could all go out and talk to the demonstrators. Give them --

(Taping interrupted)

CHAIRMAN MOYNIHAN: -- statement two. A member of the press did not hear --- the statement one, which is that the

meeting will resume shortly, continue to 2:00 o'clock, after which there will be a press conference.

(Luncheon recess)

A F T E R N O O N S E S S I O N

(1:13 p.m.)

CHAIRMAN MOYNIHAN: I will wait until all the commission members are present, but it would be my purpose, and I think Mr. Parsons agrees, to declare that we have basically accepted and approved the interim report subject to the changes that have been suggested and which will be made. There's enough of us here just now to start. I would like to move -- we're going to be very informal in our proceedings, but use some of the terminology.

**MOTION**

CHAIRMAN MOYNIHAN: I'd like to move that the commission approve the interim report subject to the changes that have been proposed this morning and I think all of which were well accepted by the group.

MR. JOHNSON: I second that motion.

CHAIRMAN MOYNIHAN: We're open to debate.

DR. MITCHELL: Just a quick question. I just haven't had a chance to read the latest revision, so you're saying conditional on those being approvable.

CHAIRMAN MOYNIHAN: Yes. Yes.

DR. MITCHELL: Thank you.

CHAIRMAN MOYNIHAN: But hurry up.

(Laughter)

CHAIRMAN MOYNIHAN: Very well. I see the mood of the

commission is agreeable to that and I declare the motion carried.

Now, we have one further but important piece of business for the afternoon which is the --

MR. PARSONS: Remind me when I grow up I want to be a great man.

MR. : It makes everything easier.

CHAIRMAN MOYNIHAN: Each of you has before you a list of questions that we would like to put to the persons who appear, the public, in the hearings which we will be holding in September, in San Francisco in the case of Mr. Parsons, in New York City in my case. I think, Mr. Blahous, it might be the best thing for you just to walk us through.

MR. BLAHOUS: I would be happy to.

CHAIRMAN MOYNIHAN: This is just something we will make available to the public, but people can come and talk about what they have in mind.

MR. BLAHOUS: Earlier the commission had indicated, Mr. Chairman, that there was a desire to have hearings in September at which input from the public would be heard on how to resolve the challenges that have been identified in the interim report. Working over the last several days with individual commission members, we have drawn up a tentative, and of course highly revisable, list of questions that could be posed. It was suggested that the questions should begin by covering the area of the design and structure of personal accounts and proceed later

in the questions to questions of systemic financing. We have tried to order and organize the questions to follow that system.

Unlike the interim report which was drawn up with consultation from every member of the commission at some point along the way, thus far we have only received concrete textual suggestions on these questions from about half of the commission.

So in order for these questions to be put before the public in early August to provide for sufficient time for public responses for the September hearing, we would like some direction from the commission on possible changes to these questions and preparation for their release in the next couple of weeks.

CHAIRMAN MOYNIHAN: You're going to put them on the website.

MR. BLAHOUS: We will post them on the website.

CHAIRMAN MOYNIHAN: Very well. The floor is open to comment.

MR. FRENZEL: Mr. Chairman, may I inquire as to what kinds of witnesses they are going to hear from? It looks as though we are not having any economists. Perhaps they've already delivered lots of opinions on the system.

MS. : Do we have a list?

MR. FRENZEL: Do we have any kind of list of potential testifiers?

CHAIRMAN MOYNIHAN: I don't think we do, but I think we ought. I think we ought to think about persons we would

specifically ask.

MR. FRENZEL: My guess is if we open it up, everyone in the world will want to be on the list.

CHAIRMAN MOYNIHAN: Well. Mr. Blahous.

MR. BLAHOUS: Yes. I will say that with respect to the August meeting, some ideas have already been circulated among the commission, some suggested by the co-chair and others, regarding people who might explain the administrative setup of the Thrift Savings Plan and other similar systems for administering personal accounts, and those plans are already in place or are being developed.

With respect to the September public hearings, I think what is being considered is sort of a broader cross section of members from the general public, certainly people who have sponsored congressional proposals, leading economists. I think the general desire is that there be a balance both in terms of viewpoints expressed but also in the types of backgrounds of people who would present.

CHAIRMAN MOYNIHAN: We are expecting one-day hearings?

MR. BLAHOUS: Well, actually there has been the suggestion made, and perhaps Estelle might want to elaborate upon this, but one suggestion that has been made, that even though we are setting up one day for a hearing on the West Coast, one day for a hearing on the East Coast, this does not preclude the commission from dividing into smaller groups and hearing

separately from those who want to put forward testimony, to increase the number of people that can be heard from on those days.

CHAIRMAN MOYNIHAN: Sir. Bob.

MR. POZEN: I would like to suggest that we -- that in order to make this more efficient, the hearings, that first of all we ask people who want to testify in these hearings to submit by a certain date a short statement in response to one or more of these questions and limit that statement to no more than, say, three pages or something, and then if that goes to the staff, then the staff can cull through them and select A) people who are particularly thoughtful, and B) people who are bringing some new perspective, and C) make sure that we have an appropriate representation of both economists, public people, you know, public --

CHAIRMAN MOYNIHAN: And different points of view.

MR. POZEN: And different points of view. And I would say, and to pick a number of people who would then fit within one day, so that we can have the benefit of the comments of all these people through the three-pager, but that I don't think it's feasible for us to have personal testimony from everybody who wants to testify. We might spend all of our -- the hearings might have to go on for weeks or months, and I don't think that's a predictably efficient way for us to get information.

SENATOR MOYNIHAN: Mayor.

MR. VARGAS: Co-chair, I think there might be some precedents in the past in terms of other, not commissions on Social Security but other commissions that have taken public testimony.

CHAIRMAN MOYNIHAN: How did you do? How did you have to --

MR. VARGAS: We had several public comment sessions that were limited, and I think our comments -- the comments of those who testified were limited to a certain amount of time. I think it was five minutes. But what I was going to suggest, to look at those other commissions for some guidance, because I think you're right, that either it's a limit in terms of the amount of time that someone gets to speak, or they submit their full testimony, something that would allow us to get as much input as possible and also make it practical for people to be able to give their comments in public. And obviously not everyone is going to have the opportunity to do that, and I think that that job should be left to staff following whatever other precedents have been set in the past for these kinds of public comment sessions.

CHAIRMAN MOYNIHAN: Right. Could I then -- I'm sorry, Bob.

MR. JOHNSON: No, I just want a point of clarification on the questions. All the questions here go to requests for input on personal accounts. Is that correct?

DR. JAMES: Except for the last two questions.

MR. BLAHOUS: Not all of them. The questions on the first page begin with personal accounts, but some of the questions towards the end deal with incentives for workforce participation and placing the system on a course of fiscal sustainability.

MR. JOHNSON: Okay. What I'm asking, if someone wanted to testify but absolutely, unequivocally opposed personal accounts, or if a number of somebody's, we would accept those?

CHAIRMAN MOYNIHAN: Fine. Then fine. Not the whole day.

MR. JOHNSON: Right.

DR. JAMES: Because that person could certainly address question number 12 --

MR. JOHNSON: Twelve and thirteen.

DR. JAMES: -- on fiscal sustainability.

MR. JOHNSON: So we're going to take every idea that's within the range of reason.

MR. BLAHOUS: Absolutely.

MR. JOHNSON: Okay.

CHAIRMAN MOYNIHAN: Now hold on. Some members of Congress might want to testify too.

MR. JOHNSON: They would be ---.

MR. : Is that a contradiction?

MR. PARSONS: I do think that the point that's being

made down at the end of the table, that we will need to -- that there will be more people who want to testify than will be permitted to by constraints of time. Just because someone happens to be for or against a particular position, that shouldn't be a gating factor, but I think if we follow Bob's suggestion and get a sense of where each of those who wants to testify is coming from, we can group them. And you will have a range of approaches to a subject matter, and then each of those subject matters should be captured, but I wouldn't want anybody who's here or who is watching to think that all they need do is indicate that they have something to say and that they will have an opportunity to say it, because we don't have, unfortunately, that kind of time.

CHAIRMAN MOYNIHAN: Well, then could I -- well, I'm sorry, Estelle.

DR. JAMES: Yes, well I just wanted to underscore that even if people don't testify orally, we can still take account of their written statements, and that's a reason for requesting short written statements so in fact they can be read.

CHAIRMAN MOYNIHAN: Uh-hm. Uh-hm. Mario.

MR. RODRIGUEZ: How much time are we actually talking about for this, for the public input? An hour, two hours, three hours, four hours?

MR. BLAHOUS: Well, I think the commission envisioned meetings, all-day meetings of a four to six-hour length, but

obviously that's up to the commission and the co-chairs.

MR. PARSONS: We haven't sort of finalized on that yet.

A lot of it will depend on how much we have to do, but I could see on both coasts having at least a morning session and an afternoon session where people come. It's hard to sit for more than about three hours without a break and listen, but you do that morning and afternoon, morning and afternoon on the other coast. Then if we really need to break it down further, we have the option that Estelle suggested, which is taking two rooms and having four commissioners in each room listen to --. So we've got a lot of flexibility around it.

CHAIRMAN MOYNIHAN: Well, I'm going to suggest then that we have agreed that in following just congressional patterns, that witnesses will submit in advance in writing their statement, their entire statement, and that -- is it agreeable that statements be limited to five minutes?

(Commissioners nod their heads in affirmation)

CHAIRMAN MOYNIHAN: But that the commissioners can then ask questions of the witness.

MR. FRENZEL: Those who ask too many questions lose their library card.

CHAIRMAN MOYNIHAN: There you are. There you are. I think that feels about right, doesn't it?

MR. FRENZEL: Yes.

MR. BLAHOUS: May I make one additional observation,

Mr. Chairman. The next meeting of the commission is scheduled for August 22nd.

CHAIRMAN MOYNIHAN: That's right.

MR. BLAHOUS: The first date of public hearings is scheduled for September 6th. It might not be unreasonable that the deadline for submissions of ideas could be timed to occur just before the August 22nd meeting, so that at the August 22nd meeting the commission can have a discussion and make a determination as to which submissions should result in the opportunity to testify.

CHAIRMAN MOYNIHAN: Well, that's right. You might find there's a huge imbalance or we might learn something from who comes forth and says I'd like to be heard. Don't you think, Bob?

(No audible response)

CHAIRMAN MOYNIHAN: Tom.

DR. SAVING: I think I'm a little concerned that individuals who see this list may think it mutually exclusive, and in fact any suggestion for reform ought to certainly, as we've said, have to deal with the fiscal sustainability of the suggestion, and these are -- you would expect anyone who suggested private accounts, for example, as the solution would have to answer almost every one of these questions. So they are not mutually exclusive. You don't want someone to testify about number one, but you're really asking someone to testify about solutions to this financing problem that we have, and those

solutions ought to be sustainable. They certainly can discuss only one of these, but they should be encouraged to discuss more than one.

DR. JAMES: Could I --

MR. BLAHOUS: Okay. If nothing else, answer question 12?

DR. JAMES: Could I have a follow-up reaction to this?

DR. SAVING: Everyone should have to answer question 12.

DR. JAMES: Could I have a follow-up reaction to this?

You know, the more questions we ask them to address, the more we have to be concerned about the time constraints. There's a limit to what you can meaningfully say in five minutes about any one of these questions, and if we ask them to address a whole set of questions, I think five minutes becomes unrealistic. So I would like us to think through the five-minute concept perhaps a little bit further.

CHAIRMAN MOYNIHAN: I wonder if we could begin following congressional procedure. Your oral testimony is five minutes.

DR. JAMES: Uh-hm.

CHAIRMAN MOYNIHAN: And then you ask the balance of your statement be included in the record as if read. The whole of the statement will be in the record.

DR. SAVING: Well, that's what I had in mind.

MR. FRENZEL: A limit on the written remarks,  
Mr. Chairman?

CHAIRMAN MOYNIHAN: Well, I'm willing to let people  
write as much as they want. Free country.

DR. JAMES: Are you willing to read?

CHAIRMAN MOYNIHAN: I didn't say --

(Laughter, simultaneous conversations)

DR. JAMES: You're a good reader?

MR. PARSONS: I'll take the Fifth on that one.

DR. JAMES: Because you're a speed reader.

MR. FRENZEL: Well, they have to be advised that people  
will read so far.

CHAIRMAN MOYNIHAN: Yes. Don't bury the lead, I think  
is the journalist's signature on these matters.

MR. PARSONS: May I, Mr. Chairman.

CHAIRMAN MOYNIHAN: Sir.

MR. PARSONS: On the point that Tom was raising, a  
slight variation of it. I do think that the way in which the  
questions are presented in this sheet you handed out sort of give  
it the appearance of weight towards personal accounts, their  
structure and the construct and how they are managed and  
administrated and the rest of it. To use your expression, we  
sort of buried the lead, which is fiscal sustainability and some  
thoughts on that. I might turn these around, and really almost  
all the questions on the first page, one through six, are part of

the same question. Just how would you --

CHAIRMAN MOYNIHAN: Yes. Yes. Yes.

MR. PARSONS: If you think personal accounts makes some sense, how would you structure it including size and elections. I mean, that's really one question. I think anything we put out should give the appearance, because it is the reality of this commission, of balance of view, an openness to all thoughts that really relate to putting what is currently an unsustainable system on a sustainable course, hopefully with a wealth generation aspect to it.

DR. JAMES: Well, following that suggestion, perhaps the order should be reversed.

MR. PARSONS: Yes.

CHAIRMAN MOYNIHAN: Does that not appeal to us as a proposition?

MR. : Good idea.

CHAIRMAN MOYNIHAN: Sounds right. Chuck, that's agreed to. Good thought. And I think consolidating those first six questions into one or two.

MR. BLAHOUS: We'll do it.

DR. JAMES: I think it's also perhaps worth having an explanatory statement. The reason there are so many questions about personal accounts is there are so many detailed aspects that would need to be thought about. We thought we could really benefit by hearing a variety of opinions --

CHAIRMAN MOYNIHAN: There you go.

DR. JAMES: -- on these issues.

CHAIRMAN MOYNIHAN: There you go. There you go. Tim.

MR. PENNY: Thank you, Mr. Chairman. As I viewed this, we do have three categories that for the first six deal with all sorts of particulars related to personal accounts, the next four really are safety net questions, the final two are fiscal matters. I think it might be best to abbreviate the first six in some way, because it -- I don't think it requires quite this many questions to kind of get the point out that we're looking for input, and I don't want to create the impression that that's the bulk of our work here, because there's more work to be done than simply defining personal accounts, although it's a very important piece and these are important questions.

I'm only curious as to the final two questions whether we want to be more explicit in asking people how they might feel about certain options both on the benefit side and the revenue side. It's implied, so maybe we don't need to do that and we just take what people give us, but I want a reaction to that if you would.

MR. BLAHOUS: Well, my reaction would only be based on what I've heard from individual commission members to this point, and all of them are here to speak for themselves, but I do know that in the drafting of these questions the concern was expressed that the commission not indicate in these questions a bias in any

particular direction, that we should leave it totally open to the public to make suggestions.

MR. PENNY: It's fine. I assumed that it had been given some thought by --

CHAIRMAN MOYNIHAN: Yes. I mean anything you suggest would be ---.

MR. PENNY: -- others and by the staff, and that's satisfactory to me. That's fine.

CHAIRMAN MOYNIHAN: Very well. Mr. Goss, you have been unaccountably subdued today. Is it because you agree with everything you've heard or because you're aghast?

(Laughter)

MR. BLAHOUS: Or aghast, as the case may be.

MR. PARSONS: Handle that pitch.

MR. GOSS: Hardly aghast, Senator Moynihan. I wasn't expecting you to raise this issue and offer me the opportunity to just make a couple comments. I guess I would seize the opportunity, though, just on a couple of points. That is, first of all, with respect to the 2016 and 2038 dates, obviously both of these are dates of significant concern, and in reading through the commission draft report, now I believe accepted, I think very clear distinctions have been made between these dates and very effectively in the discussion earlier today by a number of members of the commission. They've done a very good job I think of making the distinctions. The way that we oftentimes think of

the distinctions between these dates is the 2038 date is the date which I think many people have said everybody agrees based on the projections that there is clearly a Social Security problem at that stage of the game. There will not be sufficient tax revenues and there will be no remaining Trust Fund assets to be able to pay the benefits. The 2016 issue is a little bit different. Clearly there's a problem here, but the nature of the problem is probably in the broader context of the Federal government as a whole. From the narrow point of view of the Social Security program and the Social Security trust funds, there would be the view that the trust funds are there, as many people mentioned. Gwen King, Estelle, I think some others said the Trust Fund securities, the Treasury securities are there and that they would be redeemed. The issue is, of course, the difficulty of redeeming those, and that is a broader budgetary, a broader governmental issue, not necessarily specifically a Social Security problem, so-called. The only other comment that I guess I would make would be with regard to the question of the redistribution of benefits.

CHAIRMAN MOYNIHAN: Yes. Yes.

MR. GOSS: That is that I think some very, very good points are made in the report about this. I know there's been some discussion, myself with staff members, on this issue. There have been a number of academic studies that have addressed the redistribution of benefits, and I would just emphasize that the

report is very clear on saying that for the retirement aspect of the program, there are certainly issues for the current program in terms of redistribution. Black Americans, for example, because they do have shorter life expectancies in terms of the retirement portion of the program therefore have a tendency to get less benefit. There are of course some mitigating items, like the fact that black Americans do tend to have lower earnings levels and therefore, as Olivia mentioned, tend to in the monthly level of their benefits tend to have a higher replacement ratio relative to the earnings. And also, as I think Gwen mentioned, the fact that there are certainly also mitigating features which are the survivors' and disability benefits that the current system offers. I believe the report even is fairly clear in saying that these aspects may at least in part offset some of the effects of the life expectancy.

CHAIRMAN MOYNIHAN: Well, I think you heard, I think it was John Cogan who said that it appears that there really is -- in the end, the Social Security benefits are neutral as regards on these matters, that there is no redistribution. Didn't you say that?

DR. COGAN: I think Olivia mentioned that as well.

CHAIRMAN MOYNIHAN: Olivia mentioned it as well. And does that trouble you?

MR. GOSS: I think that as a rough cut that that may very well be nearly the case. I think there are two things to

keep in mind on that, and again, I think the report was fairly clear on this. This concept of neutrality being discussed at this point would be on a lifetime benefit basis, not with respect to the monthly benefit. Olivia was very clear on that. But on a lifetime basis, because some groups that may in fact be getting a higher monthly benefit relative to what they put in, if the life expectancy is shorter, that that then works in the other direction.

As Olivia also mentioned earlier, I would just want to mention that we have sort of stepped up our efforts over at the Office of the Actuary at the SSA to try to develop some further data and information to augment that which has been developed in the academic community, by way of looking at what these real differential returns are by race and income status. This is as was mentioned I think briefly at the first meeting of the commission.

CHAIRMAN MOYNIHAN: Race, gender and income.

MR. GOSS: Gender? There are lots of issues on gender, and of course, if you look at I think for instance for Hispanic Americans, there was a mention, I believe, in the report of how much money is paid in by way of contributions versus how much money comes out. If you look for instance for women, for females in our society, of course, the amount of money that is paid in contributions relative to the benefits that comes out is very favorable with respect to women. So there are a lot of ways of

looking at these redistributive aspects, and I think a large number of these are included in the report.

CHAIRMAN MOYNIHAN: As you come upon or devise further ways, you'll keep us informed.

MR. GOSS: Absolutely.

CHAIRMAN MOYNIHAN: And I know I can't say too much how grateful we are, not just to the Office of the Actuary, but to the Social Security Administration. You've been wonderfully responsive. Perhaps you'd tell the Acting Commissioner how much we appreciate that.

MR. GOSS: It would be my pleasure. Thank you, Senator Moynihan.

CHAIRMAN MOYNIHAN: Bob Pozen.

MR. POZEN: It might be useful just to give the staff a little more guidance. It seems like perhaps we should ask them to put out a revised question list as soon as practical, and then ask people to submit something by August 15th so that they would have time to go through the proposed speakers --

CHAIRMAN MOYNIHAN: Ah.

MR. POZEN: -- for the 22nd.

CHAIRMAN MOYNIHAN: Done. Chuck Blahous.

MR. BLAHOUS: I have it, sir.

CHAIRMAN MOYNIHAN: Mr. Beard.

MR. BEARD: Why don't you just -- in terms of having the public have a chance to express themselves, I think it's very

important that the whole thing be open and fair, and early on in the discussion people have the opportunity to write anything they want and send it to us, which is part of the record, out of which some will be allowed to, just because of time constraints, make oral comments, but basically the written comments we're all going to get them and it's part of reaching out to anybody with a good idea, and I think from a fairness viewpoint it's important.

CHAIRMAN MOYNIHAN: Fair point. Robert Johnson.

MR. JOHNSON: Mr. Chairman, let me suggest something which might be heresy in Washington, such as the call of asking the public what they might think about this. Is it possible that we could retain a very well respected polling agency to ask questions of the public about this broad Social Security issue in a manner in which while some of it is somewhat complicated but in a manner in which they would understand, and at our presentation at our first hearing we could have that pollster report on what data they gleaned from the public's opinion about how they would like us to address Social Security? I don't know where the money will come from. I think AOL has a pot of money they set aside for these kind of socially beneficial things.

(Laughter)

MR. JOHNSON: But the point is, to me it would be really interesting to see how John and Mary Q. Public might feel about these issues and how they would expect us to respond to them. That would just be a suggestion.

CHAIRMAN MOYNIHAN: It's a good suggestion. We are going to have a summary of the polling data that does exist. John.

DR. COGAN: I was going to say that. It strikes me it's a good idea to have some information from polls, but I think Olivia suggested that we might be able to get some information from work that she's already done --

CHAIRMAN MOYNIHAN: Right. Right.

DR. COGAN: -- collecting and collating polling data.

MR. : Mario said he had just done some. ---.

CHAIRMAN MOYNIHAN: Mario will.

DR. MITCHELL: There's been a retirement confidence survey also that's been fielded a number of times over the years by the Employee Benefit Research Institute.

CHAIRMAN MOYNIHAN: Oh, sure. Yes.

DR. MITCHELL: Perhaps you can ask them to do an update and a time trend for us.

CHAIRMAN MOYNIHAN: Will you do that on behalf of the commission?

DR. MITCHELL: Sure.

CHAIRMAN MOYNIHAN: Yes. Yes. Commissioner.

MS. KING: Senator Moynihan, it's been my experience that everyone who's offered an opportunity to testify will come forward except the people who are perhaps closest to the program, and that is the people at the Social Security Administration.

CHAIRMAN MOYNIHAN: Oh.

MS. KING: I believe they may have some views on this, and I don't really think we're going to get those views unless we ask them directly. So I'd really like to invite the Commissioner or someone from the Administration to come before us at our next gathering, if they indeed have something they would like to share with us.

CHAIRMAN MOYNIHAN: Good idea, but let them make that judgment, all right? I think it's something that, wouldn't you agree, they may feel a little bit restrained.

Well, I think we have had a good day. I want to thank you for the thought and effort that's gone into it. I think Blahous and Brown are going to have a pleasant weekend, but I think we're moving along well, don't we all agree?

MR. : Yes, sir.

MR. FRENZEL: Excuse me, Mr. Chairman. We have approved the draft as amended by the staff I guess on -- yesterday. Is that the end of it or is there more smoothening being done?

CHAIRMAN MOYNIHAN: Oh, there will be more smoothening, because we've been talking about it. That's what we went round.

MR. BLAHOUS: From the co-chairs and the rest of the commission we still are ready and able to take additional wordsmithing.

CHAIRMAN MOYNIHAN: And we have yet to determine whether or not the Frenzel coat of arms can be used on the cover of the report. Let's see. No response. Well, we'll negotiate.

MR. JOHNSON: Motion to adjourn.

CHAIRMAN MOYNIHAN: There's a motion to adjourn.

(A chorus of seconds)

CHAIRMAN MOYNIHAN: It has been seconded. Those in favor will say aye.

(A chorus of ayes)

CHAIRMAN MOYNIHAN: Motion's carried, and we will see you in August.

(Whereupon, the meeting was adjourned at 1:45 p.m.)