Statement of Senator Robert F. Bennett
Introduction of Sustainable Solvency First for Social Security Act
March 16, 2006

Mr. President, I want to thank the managers of the resolution for providing me with a few minutes to discuss my introduction today of the Sustainable Solvency for Social Security Act. In introducing this legislation, I am under no illusion that there will be a rush to enactment, but do believe this is an appropriate time to draw attention to this issue and the broader issue of entitlement spending as we consider the Budget Resolution for Fiscal Year 2007.

Yesterday, we had a close vote on an amendment to reinstitute pay-as-you-go rules for spending increases and tax reductions. I opposed that amendment because a vote for it was, in essence, a vote for automatic tax increases on the American taxpayer. A more honest approach would have been to ask the Senate to adopt an amendment that required 60 votes to pass any legislation that would prevent the expiration of any tax provision that would, if allowed to expire, result in a tax increase on individual taxpayers.

I mention this because I do believe that we need fiscal discipline. We do need to collect higher revenues, but collecting higher revenues does not mean that you need to impose higher tax rates on capital or labor. Even if the sponsors of pay-go had prevailed, the real issue would be – once again – ignored.

The loaded gun held to the heads of American taxpayers is entitlement benefits that have been promised, but cannot be paid for under any realistic scenario. Economic growth can help solve or mitigate many fiscal challenges, but it cannot overcome the twin realities of demographic destiny or benefit structures that are simply unsustainable.

Today, four items – Social Security, Medicare, Medicaid and interest -- consume just under 10% of our Gross Domestic Product. If we do nothing we will see expenditures for the three programs increase to almost 20% of GDP. That, Mr. President, is simply unsustainable.

Over the past year, I spent a great deal of time talking to members on both sides of the aisle, as well as the administration, about ways to begin addressing this looming crisis. I started with Social Security. Some asked, “Why start with the smallest problem?” The answer was simple. If we can’t come together on a problem that can be fixed by aligning benefits with program income, how can we ever expect to come together on more difficult issues like Medicare reform.

In the case of Social Security, we can quibble about exactly when, but at some point between 2042 and 2052, the program will be unable to pay benefits called for under current law and benefits will be reduced automatically to match program income with program outlays.

As I said, I have no illusion that the legislation I am introducing today will be enacted this year, but I offer it for my colleagues’ examination and suggestions.

Mr. President, this legislation does not include personal accounts of any shape or form. It focuses exclusively on the goal of making Social Security solvent. And it does so without any increases in taxes or increases in the payroll cap.

Presently, the Social Security system faces an actuarial deficit of 1.92% of payroll. According to the Chief Actuary at Social Security, 1.60% of this deficit is related to the Old Age and Survivors Insurance (OASI) program – what we traditionally think of as Social Security. The remaining 0.32% is attributable to the disability insurance program. As I discussed this issue with many of my colleagues and with others, it was clear that there was a broad consensus that the disabled should be held harmless. It was also clear that there was little or no support for the proposition that retirement program beneficiaries should subsidize the disability program. Therefore, this legislation does not touch the present disability program and leaves open the question of how to address the disability program deficit. Additionally, there was broad agreement that current retirees and those nearing retirement (born before 1950) should not have their benefits affected.

This legislation focuses solely on the 1.60% actuarial deficit in the OASI program. It achieves sustainable solvency for Social Security's OASI program through two primary policy tools: progressive price indexing and longevity indexing. Those reforms would slow the projected real rate of increase in future retirement benefits to a more sustainable level, while protecting low-wage-earners, the disabled, and their dependents. It also modestly accelerates the timetable for the transition under current law to a normal retirement age of 67, and it ensures sufficient backup general revenue funding to maintain a contingency reserve in the Old Age, Survivors and Disability Insurance (OASDI) trust fund.

My proposal for sustainable solvency has been scored by the office of the actuary at the Social Security Administration. The effects of its provisions affecting retirement benefits (progressive indexing, accelerated NRA 67, and longevity indexing) would eliminate entirely the OASI program actuarial deficit of 1.60 percent of payroll that is projected under current law.

Progressive Indexing

Progressive indexing would not begin until 2012. First, it is important to note the beneficiaries, and Social Security programs to which progressive indexing would NOT apply. It would not apply to any current or future retiree born before 1950. Its provisions also would not apply to any worker in the future whose Social Security earnings history was in the lowest 30 percent of career earnings for workers becoming eligible to retire in a given year.

Progressive indexing essentially slows the future growth rate of benefits for higher-earning workers. Their initial retirement benefits will grow more in line with price growth, rather than the even-higher rate of increase pegged to wage growth under current law.

Under current law, retirement benefits are calculated under a "wage indexing" formula that will help propel them to levels significantly higher than the payroll tax revenue available to pay for them. The formula uses the average rate of growth of wages within the economy, rather than changes in the cost of living, to adjust (or "index") the past earnings of a worker that are used to determine the worker's initial benefit level at retirement. Because average wages generally grow faster than prices over time, the current benefit formula essentially guarantees that future retirement benefit levels will grow faster in "real" dollar value from generation to generation. Under this proposal, the individuals in the lowest 30 percent of all wage earners retiring in a given year would continue to have their past wages, and resulting benefit levels, indexed according to wage growth, while those at the top of the wage distribution would have their past wages indexed for changes in prices. Those falling in between would have their past wages indexed based upon a "progressive blend" of wage and price changes. In short, future benefit levels for workers who earned higher wages over their working career would not rise as much as benefit levels for workers with lower lifetime earnings, but those workers most dependent on social security for retirement income would be protected from such changes.

This blended version of progressive price indexing targets the sustainable levels of revenue that will be available for future Social Security benefits under current law in a manner that ensures that those retirees that will be most in need are treated the most generously. It builds on the underlying progressive structure of the current benefits formula that replaces lower levels of career earning with a relatively higher share of retirement benefits. The real purchasing power of future OASI benefits will continue to grow, but not as much, in future decades for higher wage workers.

Longevity Indexing

Longevity indexing recognizes that future retirees will live longer and, accordingly, receive inflation-protected levels of their initial retirement benefits for longer periods of time than prior retirees. Absent any adjustment for changes in life expectancy beyond the age of retirement, longer lifetimes in retirement would mean increasingly greater dollar amounts of lifetime Social Security retirement benefits in future decades.

Under present law, the retirement age is scheduled to increase incrementally to age 67 beginning in 2022 (the normal retirement age gradually increases for workers born in 1960 and later years, by two months each year starting in 2022 until it reaches age 67 in 2027). Under this proposal, the move from age 66 to age 67 would begin in 2012. The Normal Retirement Age or NRA would be increased by two months each year until the NRA reached age 67 in 2017. After that date, initial monthly benefits for future retirees would be periodically adjusted by the Social Security Administration to account for changes in the expected average lifetimes of future retirees.

Protection of Disabled Workers

Because it does not change current-law benefits for disabled beneficiaries, my bill does not address the remaining actuarial deficit for the DI program under current law, which amounts to another .32 percent of payroll. Accordingly, it does not close the larger overall actuarial deficit for the combined OASDI programs. The latter is 1.92 percent of payroll under current law, and would be substantially reduced to only .28 percent of payroll under my bill.

My plan's provisions that reduce OASDI benefit obligations first begin to operate in 2012, and they then improve annual unified budget balances for that year and all subsequent years within the standard 75-year projection period used by the Social Security Administration.

Several other measures demonstrate the improved solvency for the overall OASDI programs under my bill. The net cash flow from the OASDI Trust Funds to the general fund is improved by $3.6 trillion in present value. The OASDI Trust Fund exhaustion date would be extended from 2041 until 2056.

Until we can find further support for dealing with the remaining solvency problems in the DI program, we should at least ensure that sufficient resources are committed to prevent sudden across-the-board reductions in OASDI benefit levels in later decades. Therefore, my bill provides budget authority for general fund transfers as needed to maintain a 100 percent OASDI trust fund ratio in later years. Those general fund transfers are estimated by the SSA actuaries to amount to $0.6 trillion, in present value, over the next 75 years. This provision ensures solvency for the combined OASDI program through that period. After 2080, additional general revenue transfers are not expected to be necessary, and annual program cash-flow balances are projected to be improving and approaching positive annual balances beyond that year.

I also think it is important to point out that this legislation recognizes that changes in economic conditions have an impact on the actuarial balance of the program. Greater economic growth can improve but not alone restore the program's solvency; recessions can significantly worsen that financial position. Some expressed concern early in discussions on this legislation that we might be going too far, that some of the changes might prove unnecessary. For that reason I have included a provision that will allow for the administrative "turning off" if you will of the progressive indexing or longevity indexing if the program comes into actuarial balance prior to those provisions being fully phased in.

In conclusion, this legislation would substantially reduce the mountain of unfunded debt projected for the Social Security program in the decades ahead. It does so in a manner that gradually and sensibly reduces the formula-driven increases in real retirement benefits under current law for future retirees, while protecting low-wage workers and the disabled. We could do more, but this bill would do a lot. At other times, I have proposed separate provisions to enhance overall retirement security, such as through the option of personal accounts funded partly from current payroll taxes and partly from additional personal saving. I have also proposed reforms in pension policy to encourage automatic enrollment in employer plans, provide better access to standard investment options, and stimulate increased saving by workers. But I have left those issues for another debate and focused on the solvency of the retirement program.

I offer this legislation as a starting point. I remain, as I have been over the past year, open to suggestions or modifications that can lead to bipartisan reform that will insure the permanent solvency of the Social Security system.   We cannot afford to ignore this issue any longer. Burying our heads in the sand will only magnify the folly of inaction.