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RETIRING BABY BOOMERS: MEETING THE CHALLENGES

HEARING

BEFORE THE

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HEARING ON RETIRING BABY BOOMERS: MEETING THE CHALLENGES

THURSDAY, MARCH 6, 1997

U.S. SENATE,
SPECIAL COMMITTEE ON AGING,
Washington, DC.

The committee met, pursuant to notice, at 9:30 a.m. in room 628, Senate Dirksen Building, Hon. Charles Grassley (chairman of the committee) presiding.

Present: Senators Grassley, Burns, Hagel, Collins, Enzi, Breaux, Reid, Kohl, Feingold, Moseley-Braun, and Reed.

OPENING STATEMENT OF SENATOR CHARLES E. GRASSLEY, CHAIRMAN

The CHAIRMAN. I am very happy about the appointment of the Senator from Louisiana as the ranking minority member.

This committee has a long and influential history. It has called attention to problems and it has found solutions for older Americans. I intend to build on that strong tradition. I want to help alleviate some of the anxiety that current and future retirees feel about their security and quality of life. I want to focus on the problems facing seniors and consider positive solutions to help the older, the lives of our older Americans.

Remember, too, that this is the Committee on Aging, not aged. We will witness during the next 10 to 15 years a remarkable demographic shift. Baby Boomers will begin to retire in the year 2010. I want them to enjoy the same standard of living in retirement as their parents. That means health care and income security. It means the Government must honor the commitment it has to older Americans with Medicare and Social Security.

These programs must be on a sound financial foot. By starting today with this subject, and to tackle the challenges that will come with the retirement of Baby Boomers, we can avoid a crisis, a crisis that we face now with Medicare, quite frankly. Looking ahead gives us time and flexibility. Because the future is bright. The average life span in America has increased dramatically during the last 100 years. Today some of us work years longer than our great-grandparents even lived. What's more, medical advances will help us to live longer, we think. These advances will raise new questions: What will this mean for Social Security and Medicare? What about the retirement age? How will living and working longer impact the productivity in our economy?

I spent a lot of time visiting with high school and college students in Iowa. There's widespread lack of faith among the younger generation in public retirement programs. Even some Baby Boomers have lost confidence in the longevity of these programs and through many visits with older Iowans, I understand the genuine insecurity about making ends meet. That's why it's so important to reach out to each generation and build a consensus among the grass roots.

As Chairman, I will focus on educating the public. I want to bring about dialog on important public policy issues and prepare for future challenges. Whether one is a Generation X-er, a Baby Boomer, a retiree, or a person who needs to have confidence and feel good about retirement and quality of life, it doesn't matter where you come from.

So today the committee will consider what is certainly one of the largest public policy challenges we face as a Nation, providing health and income security and retirement for 76 million Baby Boomers who begin retiring shortly. Meeting this challenge will not be easy. Baby Boomers constitute one of the largest distinguishable generations in our history. They are followed by a much smaller generation of Baby Busters. Thus, when the Baby Boomers retire, a relatively small population of workers will find themselves supporting a relatively larger generation of retirees.

The per capita costs of medical services provided through the program on which the vast majority of retirees depend for their health care, which is Medicare, have been increasing rapidly and may well continue to do so in the future. Finally, the number of 85-year-olds who use more medical services than younger groups will probably continue to rapidly grow.

The result of all this could well be that when the Baby Boomers retire, we will be unable to sustain, as presently structured, those programs on which the elderly depend for health and income security. If we do try to continue them in their present form, their spending could squeeze out spending for other vital national goals.

Some economists also believe that without reducing the rate of growth in spending of these programs, net savings and investment could fall and lead to a declining standard of living for all. Similarly, employers may also find it difficult to continue adequate retiree health and pension programs. Our first panel of very distinguished witnesses will discuss these potential future challenges to Medicare, Social Security, and the private retiree and health and pension programs.

Our challenge is to provide health and income security for Baby Boomers while avoiding the gloomy future I just outlined. I think it is fair to say that both Senator Breaux and I are optimists. We worked closely together in deciding to have this hearing and in organizing it. We think we can accomplish this goal with the lead time that we have.

The third panel of witnesses has thought carefully about what we must do as a Nation to manage the transition into and through retirement of this very large generation of Americans. I think that our witnesses also believe that we can manage this transition. But I think that they also believe that we must begin immediately and that won't be an easy thing to do. The contributions of public opinion and of managing the retirement of Baby Boomers is also critical. A hearing on this topic would not be completed without a review of whether the public is willing to support steps needed to accomplish the goals of providing health and income security for Baby Boomers. The public must not only be convinced that we have a problem, but must be willing to support efforts to manage it.

So we have invited a distinguished panel who is very knowledgeable from years of surveying public attitudes about Medicare, Social Security, about how health and income security will be provided for future retirees. She will testify as our second panel and share the results of recent polls. I think the committee will find her testimony very interesting.

[The prepared statement of Senator Grassley follows:]

PREPARED STATEMENT OF SENATOR CHARLES E. GRASSLEY

Today the committee will consider what is certainly one of the largest public policy challenges we face as a Nation: providing health and income security in retirement for the 76 million Baby Boomers who begin retirement just a few short years from now in 2010.

Our hearing today is based on the assumption that meeting this challenge will not be easy. Baby Boomers constitute one of the largest distinguishable generations in our history. They are followed by a much smaller generation of Baby Busters. Thus, when the Baby Boomers retire, a smaller population of workers will find themselves supporting a larger population of retirees. The per capita costs of medical services provided through the program on which the vast majority of retirees depend for their health care—Medicare—have been increasing rapidly, and may well continue to do so into the future. Finally, the number of 85 years old—who use more medical services than younger groups—will probably continue to be a rapidly growing group.

The result of all this could well be that, when the Baby Boomers retire, we will be unable to sustain as presently structured those programs on which the elderly depend for health and income security. If we do try to continue them in their present form, the spending they require could squeeze out spending for other vital national goals. Some economists also believe that, without reducing the rate of growth in spending of these programs, net saving and investment could fall and lead to a declining standard of living. Similarly, employers may also find it difficult to continue adequate retiree health and pension programs.

Our first panel of very distinguished witnesses will lay out these potential future challenges to Medicare, Social Security and to private retiree health and pension programs. I think that their testimony will underscore the need to act soon.

Our challenge is to provide health and income security for Baby Boomers while avoiding the gloomy future I just outlined. I think it is fair to say that both Senator Breaux and I are optimists. We think we can accomplish this. But it will require the commitment of government, employers, communities and a strong dose of individual responsibility to insure a secure retirement for the Baby Boomers. Our third panel of witnesses have thought carefully about what we must do as a Nation to manage the transition into and through retirement of this very large generation of Americans. I think that our witnesses also believe that we can manage this transition. But I think that they also believe that we must begin immediately, and that it won't be easy.

The contribution of public opinion in managing the retirement of the Baby Boomers is also critical. A hearing on this topic would not be complete without a review of whether the public is willing to support the steps needed to accomplish the goal of providing health and income security for retired Baby Boomers. The public must not only be convinced that we have a problem, but must be willing to support efforts to deal with it. So we have invited a distinguished witness who is very knowledgeable, from years of survey work, about public attitudes about Medicare, Social Security and how health and income security will be provided for future retirees. She will testify as our second panel and share the results of a recent poll as well as the perspective gained by studying polling trends for many years. I think the Committee will find her testimony very interesting.

The CHAIRMAN. Senator Breaux.

Senator BREAUX. I feel like I'm in a duck blind.

The CHAIRMAN. You need a taller chair. [Laughter.]

STATEMENT OF SENATOR JOHN BREAUX

Senator BREAUX. Thank you very much, Mr. Chairman, and all my colleagues. I apologize for being a little late. We had a meeting over on the other side of the Capitol, the House side.

I think this committee has a unique opportunity to try and set the parameters for the debate in legislation that ultimately must come out of this Congress. We can balance the budget, we can have tax cuts, we can provide for the national defense, but if we don't do something to solve the most pressing issues in this Nation—Medicare, Social Security Programs and principally the emerging challenges due to the rapidly growing senior population—this Congress will go down as a failure in my opinion.

I think that this committee, Mr. Chairman, under your leadership and with the cooperation of all our members, has a responsibility to educate the public and create a better understanding for all of America. Hopefully this committee can convince the various segments of our constituents that this problem will not be solved by dividing and conquering, by pitting seniors against Baby Boomers or Baby Boomers against Generation X.

This is a problem that cries out for cooperation, not just among Republicans and Democrats, but among all segments of our society affected by the problems that face us. To do nothing is to admit failure and paralysis, which I believe is not acceptable.

While this committee does not have legislative authority, it probably has something other committees do not. We have the ability to focus the debate, to develop a better understanding of the issues, and to convince the American people that we are only going to be able to solve these problems by somehow holding hands and agreeing that no solution is perfect. By working together we can make a major difference and move down the road to solving not only the short term, but the long term problems as well.

That would be my wish for this committee and this Congress. Thank you.

[The prepared statement of Senator John Breaux follows:]

PREPARED STATEMENT OF SENATOR JOHN BREAUX

Mr. Chairman, I want to commend you for holding this hearing that will look at the major challenges to public retirement and health care programs such as Social Security and Medicare. The future solvency and stability of these programs depends on many factors, including the one we will explore today, the impending retirement of my generation—the so-called Baby Boomers. While we will be focusing this morning on the specific challenges the retiring Baby Boomers pose, we will also be exploring how we as a Nation can come together and address these challenges.

I think our witnesses today will help us identify not only what the challenges are, but also where the public is regarding these complex issues. In my discussions with Louisianians and others around the country, it often seems there is a disconnect between how people view government health and retirement programs and what should be done to maintain their long-term solvency. They often forget that Social Security and Medicare are government programs, which might be an indication of their overall success—future threats notwithstanding. It seems that before we take drastic or even incremental action to meet our challenges, we have to identify where the public is and how to start moving in the right direction.

Senator Grassley, you and I have worked closely together to plan this hearing, in the bipartisan tradition of the Aging Committee. I am particularly pleased with the impressive group of witnesses we have with us here today. They represent "cutting edge" thinking about these issues.

This hearing is about the group of 75 million Americans known as "Baby Boomers" and how their retirement will impact all public and private retirement programs as they start to retire in the year 2010—just 13 years from now. When they retire about one in five Americans will be 65 years of age or older. How America prepares today for this unprecedented change will determine the quality of life for all of us in the 21st century.

Mr. Chairman, I would hope that we who serve in the Congress by now recognize that the two most important programs for older Americans. Social Security and Medicare are in serious trouble and that serious action is called for. By 2010, Social Security will be paying more out than it brings in. Medicare is in worse shape—its trust fund will be exhausted in four years. It is clear that major changes are needed to preserve these programs for current and future retirees.

It is not clear, however, to what extent we are on the same page as the American public. As we will hear from the pollster Madeline Hochstein, almost 90 percent of Americans polled think that the Medicare trust fund would be made solvent simply if we cracked down on fraud, waste, and abuse in the program.

Mr. Chairman, I am the first one to recognize that there are some wasted funds in the Medicare program and that we need to do more to combat fraud and abuse. I doubt, unfortunately, that stopping medical equipment suppliers from charging Medicare a hundred dollars for a wheelchair pad or that ending questionable use of home health care services will in and of itself balance the Medicare trust fund. I am afraid we need to do more than that—much more. The task for this Congress, therefore, is to explain this to all Americans and gain their support.

All generations, not just the elderly, must be involved in the national debate on ways to protect health care, social security, and other retirement programs. We can't continue to engage in generational battles, but must join forces in the fight to protect retirement security.

Each generation has a stake in facing the nation's retirement concerns realistically and coming up with answers for ourselves, our children, and our grandchildren. Generation Xers, Baby Boomers, and the older population must work together if we want a secure retirement well into the 21st century.

We all have seen proposals to fix Medicare and Social Security. The ones I have seen deal with raising taxes, cutting benefits, privatization, or some combination of all of these. Mr. Chairman, it is my understanding that some of our witnesses will offer us additional or alternate methods of shoring up these important programs. I certainly think we need to do more of this—listening to outside experts who may have solutions we would never have considered.

The retirement of the Baby Boomers really presents us with a tremendous opportunity to start bringing the generations together to address the financial solvency of programs like Medicare and Social Security. I believe we can find real answers if the members of both parties and all generations join forces with the kind of highly qualified professionals and experts we have before use today.

There is much more I could say about how we need to preserve public programs such as Medicare and Social Security for the baby boom generation—and all other generations—but I am anxious to hear from our witnesses. Mr. Chairman, thank you again for calling this hearing. I am pleased with the way we have begun our leadership of the Aging Committee and look forward to working with you on our future hearings.

The CHAIRMAN. It's my intention to give everybody who wants to make an opening statement time to do it, but if I could ask for your cooperation in one respect. Those of you who could do it between the first and second panel, I would like to have you do it then because we have two panelists that we were only fortunate enough to get because they also have to appear at another hearing on the Hill today. So the extent to which anybody can forego now and do it at that point, I'd appreciate it. But I don't want to deny anybody a chance for an opening statement.

Would you please make your statement?

STATEMENT OF SENATOR CAROL MOSELEY-BRAUN

Senator MOSELEY-BRAUN. Thank you very much.

The demographic bubble that our country is facing poses some of the most important policy challenges for the Congress, challenges that we are obliged to address, and to address in a sensible way. The fundamental issue that this committee has to take up is one of generational fairness. I believe that fairness in this regard is only demonstrated if this generation of Americans takes care of its stewardship by giving the next generation of Americans at least as much if not more than what we inherited. It is not fair for our generation to give the next generation less than we inherited from the previous generation of Americans.

So we've got to tackle this challenge of generational fairness and the demographic bubble and how it impacts on a whole range of policy issues, with optimism, I believe. It is unfortunate that so many young people are so pessimistic about the future and about our ability to reach solutions that are fair to them. It is unfortunate so many Americans are so pessimistic about our ability to reach conclusions and find solutions, period.

I'm told that more of the Generation X-ers believe in UFO's than that Social Security will be around when they retire. That is a real problem, and I think that we have to take on the doomsayers and the pessimists, again with optimism. This generation of Americans is just as capable of providing for future generations as others have been in the past.

I believe we have the capacity to tackle these problems to find solutions that will preserve the core values that as Americans we want to be able to share with our children, and at the same time maintain the safety net or maintain the ability of all of our constituencies, be they seniors or children, to enjoy the American dream.

I will submit for the record a more complete statement. I thank you, Mr. Chairman, for the opportunity to weigh in briefly.

[The prepared statement of Senator Moseley-Braun follows:]

PREPARED STATEMENT OF SENATOR MOSELEY-BRAUN

I thank the chairman for calling this hearing today. Retirement security is one of the issues that defines what kind of Nation we are. Over the years, the nation's pension laws have developed because it was believed that government had a role to play in assuring that workers would be able to make a decent living after their years in the workforce were over—to make our old age the golden years instead of the disposable years.

When we had neither Social Security nor pensions, the elderly were left to their own devices and the vagaries of fortune. Those who were unfortunate were left to old people's homes, or poor houses. Women, especially, faced this prospect. But our national community moved to change that with public pensions, Social Security and the creation of tax and other incentives designed to promote private pensions.

It continues to be in the best interest of this nation that every American be able to provide for an economically secure retirement. The government's charge, however, is not simply to ensure that the elderly have the opportunity to live economically secure lives, but also to ensure that the economy does not suffer the expense of an economically impoverished elderly.

Currently, the nation is facing demographic and economic changes that put our retirement security system at risk. With Baby Boomers turning 50 every nine seconds our retirement system needs to be reexamined.

As I'm sure we will hear today, retirement security has been likened to a three legged stool. The first leg is Social Security. Social Security was intended to provide a minimum—a floor—of resources for retirement. The system has been a success, but is threatened by changing demographics. Social Security's ability to continue to function as a generational compact—where one generation's workers pay the benefits for the preceding generation's retirement years—is under threat. In as little as 15 years from now, Social Security will begin to spend more than it raises in payroll tax revenue and by 2029 Social Security will not be able to pay full benefits to retirees.

The second leg of the stool is private savings. Unfortunately, Americans have one of the lowest private savings rate in the industrialized world. Economists decry this lack of savings, which hurts both individuals and the economy as a whole.

The third leg of the stool is pension income. Currently, just half of all workers are covered by pension plans. Unfortunately, according to the projections of the Social Security Advisory Commission, the percentage of Americans with private pension income is not expected to increase. In addition, the change in the types of plans being offered, from defined benefit to defined contribution, means that the benefit people can count on for retirement is far less certain.

The three legs of the stool are not providing for a secure retirement. The purpose of today's hearing is to begin to look at long-term solutions for bringing stability to the retirement stool. This means also looking at a fourth leg of the stool, health care, particularly Medicare and Medicaid, which is essential to a secure retirement. It won't be very many years before Medicare is actually a more costly program that Social Security.

Our charge is to implement necessary reforms while building on our past successes. Our parents and grandparents created a structure that resulted in unprecedented retirement security in the United States. If we build on that structure, if we dedicate ourselves to those same objectives, we can provide a system that will enhance retirement security for ourselves, for our children, and for the generations that will follow.

While we are not going to resolve the retirement security problems facing this country this year or even this Congress, we must begin this debate now. On an issue this fundamental, the American people must have the information they need to fully participate in the decisionmaking process, and they are now only beginning to get that information.

The decisions we make now will have a profound impact on not only future retirees, but on the future of our economy as a whole. I look forward to the testimony of today's witnesses and to furthering the discussion over the future of our Nation's retirement system.

The CHAIRMAN. Senator Feingold. What about you, Senator Reid. Senator Kohl.

I do intend to allow members to participate in this committee through opening statements. It's only because of respect for our panelists.

Senator HAGEL. Mr. Chairman, I would like to submit for the record an opening statement, please.

[The prepared statement of Senator Chuck Hagel follows:]

PREPARED STATEMENT OF SENATOR CHUCK HAGEL

Thank you, Mr. Chairman. It is a great pleasure to join you and my distinguished colleagues on this committee. This is a very important committee. It provides a forum for us to examine the problems and explore options and solutions related to the programs that affect our Nation's seniors. These are programs which directly affect the lives of our parents and loved ones. They affect each of us as we plan for our retirement. How we deal with the challenges in these programs will certainly affect the lives of our children. These programs affect us all.

I'm looking forward to hearing from our panelists this morning on the pressing issues surrounding the retirement of the baby boom generation. I am eager to hear their options regarding how to deal with the burdens my generation will place on Medicare and Social Security. I compliment you, Mr. Chairman, and the staff, for arranging these panels.

We must prepare now for the economic demands which will soon be upon us due to an increasing elderly population and a declining work force that will be available to support it. As my generation retires we will place enormous strains on our entitlement programs. These pressures will decimate these programs unless we begin to prepare for this onslaught of new recipients.

What we must first do is assure those who are currently on Social Security that the changes we are talking about are *in the future*. Current Social Security recipients need to know we understand that we have made a commitment to our seniors, and we will honor that commitment. We are looking at options to make the Social Security system sound for *future* retirees—which is one of the topics that today's panel will discuss.

For more than 60 years, Social Security has allowed our seniors to enter retirement with the certainty that they have some income to rely on. For more than 35 years, Medicare has done a good job of helping to cover the health care costs for our seniors. Now, it's 1997 and the problems looming over these two programs are very real and very troublesome.

We all know the deadlines: By 2012, the funds coming into the Social Security Trust Fund from the payroll tax will be less than what is needed to pay benefits. Before 2031, without changes, Social Security will be completely bankrupt. Most pressing, if we're not willing to do something to save Medicare, the money in the trust fund will be gone in the year 2001—just 4 years from today. If we do nothing, by the year 2010 entitlement spending and interest on the national debt will consume the entire Federal budget! This is an unsustainable trend!

This Congress will abdicate an enormous responsibility if we do not deal with the impending bankruptcy of Medicare. We must craft a bipartisan solution that will address the long-term solvency of this program. It is not enough to slap on a band-aid approach that merely extends the demise of Medicare by a few years. True security for our seniors rests in knowing that the programs they rely on will be there for years to come.

We have time to deal with the problems facing Social Security, but we must not squander that time. If we defer this issue we will be faced with two choices: raise taxes or cut benefits. I don't believe those need to be our options. If we seize the opportunity we have now we can save Social Security from future bankruptcy and ensure benefits for future seniors in their retirement. But we need to be creative. We need to be willing to look at all the options. Let's look at letting our citizens invest a portion of their Social Security tax in private investment. That is just one of many options that we need to be willing to explore.

I know Nebraska's seniors understand the problems their children and grandchildren will face if elected officials continue to defer the problems that are on the horizon for our entitlement programs. We must work to ensure that Social Security and Medicare continue to provide the promise of both financial and medical security for future generations. We must provide the bold, dynamic leadership expected of us, or we will pay a heavy price in the future.

Again, thank you, Mr. Chairman.

The CHAIRMAN. Remember, there will be time for people to give opening statements, if you want to do that.

Senator ENZI. I would just like to ask that my written statement be included in the record, and the little bit of it that I want to use, I'll work into some of the questions.

[The prepared statement of Senator Michael Enzi follows:]

PREPARED STATEMENT OF SENATOR MICHAEL ENZI

Thank you, Mr. Chairman. I am pleased to be a Member of the Special Committee on Aging. This important committee serves the needs of our Nation's seniors by tackling some of the most vexing and nerve-racking issues facing them now and in the future. Today's topic—"Retiring Baby Boomers: Meeting the Challenges"—is a subject that demands our active and immediate attention.

It is ironic that we are having a hearing on how we might face the financial dilemma facing the baby boom generation just a couple days after we voted on the Balanced Budget Constitutional Amendment. That measure failed by *one* vote to obtain the necessary two-thirds majority. That amendment, and all that it entails, is directly tied to the future interests of the baby boom generation. If we fail to act, when it comes time for them to retire not only will they find the cupboard to be bare, but they will also find themselves saddled with the legacy we leave behind—a self-inflating $5.4 trillion debt. I firmly believe that it is the responsibility of Congress and the President to control all aspects of Federal spending—including the "big four": Social Security, Medicare, Medicaid, and Federal Retirement—if we are going to preserve any kind of decent future for our children and grandchildren.

All Americans must share fairly in this effort and most folks are willing to do their part. We must all be prepared to sacrifice. Asking people to sacrifice is never politically popular, and that sort of political thinking often makes it practically impossible to get anything done.

We have all heard the warnings spoken by politicians who have wrestled with this problem before. Entitlements are the third rail of politics. Touch them and you wind up being stuffed and mounted on the wall—a trophy of the special interest groups. We must not let that sort of "threat" stop us from taking the action that is needed, however. We need the assistance and cooperation of the senior citizens of this country to build a foundation for a better and more secure tomorrow.

The facts are simple. Without any changes, these programs will bankrupt our Nation. We are a society with champagne tastes trying to live on a lite beer budget. We need action—we have had enough talk. We need to consider raising the retirement age, affluence testing, adjusting the CPI, or slowing the annual growth of these programs. We may debate what needs to be done, but there is no doubt something needs to be done or there will not be any revenue left. This blessed generation is going to suffer dearly if we continue to cling blindly to the "status quo."

In 1994, the Bipartisan Commission on Entitlement and Tax Reform released the following projections on what future generations will face if we continue our present spending patterns:

- By 2003, entitlements and interest on the debt will account for 72 percent of the Federal budget. That would leave a mere 28 percent for defense, education, environment, transportation, and many other important programs.
- By 2012, all tax revenues collected by the Federal Government will be consumed by entitlements and interest.
- By 2029, the "big four"—Social Security, Medicare, Medicaid, and Federal Retirement—will consume all tax revenues collected by the Federal Government.

Another wake up call was issued when the Social Security and Medicare Board of Trustees released its 1996 Annual Report. This report, which evaluates the financial status of the Social Security and Medicare trust funds using various economic assumptions, tell us that none of the trust funds meets the trustees' long-range tests of financial solvency. Under the trustees' "intermediate" assumptions—which are based on moderate inflation and economic growth—the Social Security retirement trust fund will be exhausted in the year 2029. Medicare is projected to go broke in the year 2001—just four short years from now.

I do realize that changes to these programs are generally unpopular, but the gradual changes we have proposed are far more desirable than the chaos that will surely result if we fail to act. We all know the only person who likes change is a wet baby. Rather than waiting until the crisis is fully upon us, I believe that we must take the action that is needed as soon as possible. The sooner we take responsible steps to address this problem, the more time the baby boom generation will have to make the appropriate adjustments to their retirement plans.

The CHAIRMAN. OK, thank you. I think that's everybody I have asked.

I'm pleased and honored to welcome the first panel of witnesses to our inaugural hearing of the committee for this Congress. Our first panel will discuss the current and likely financial status of Social Security Programs and Medicare Programs and private sector retiree health and pension programs. First we will hear from Dr. Gail Wilensky, whose career spans 25 years of policy analysis, management and university level teaching. Dr. Wilensky is currently the John M. Olin Senior Fellow at Project HOPE, an international foundation where she's analyzing developing policies relating to health care.

Then next we're pleased to have with us Mr. David Walker, a partner and managing director of Arthur Andersen Human Capital Services Practice. Mr. Walker served as a public trustee of the Social Security Program.

We will also hear from Mr. Dallas Salisbury, the president of the Employee Benefit Research Institute. Mr. Salisbury brings with him expertise in employee benefit systems and related economic security issues. We have asked panelists to keep their opening comments short so we can ask questions. For every panel, your entire statement will be printed in the record as you submit it. We ask you to summarize and we'll proceed with Dr. Wilensky, Dr. Walker, and then Mr. Salisbury. Then we'll ask questions.

STATEMENT OF GAIL WILENSKY, CHAIR, PHYSICIAN PAYMENT REVIEW COMMISSION, AND JOHN M. OLIN SENIOR FELLOW, PROJECT HOPE

Ms. WILENSKY. Thank you, Mr. Chairman.

I'm pleased to be here. As you've indicated, I am currently a senior fellow at Project Hope. I'm also chair of the Physician Payment Review Commission, which advises Congress on Medicare, and a former administrator of the Health Care Financing Administration.

But I'm here today to share my own views on Medicare, and they should not be regarded as representing the positions of either PPRC or Project Hope.

I have been very concerned that the public needs to be more aware of the magnitude of the changes that are needed to keep the Hospital Insurance Trust Fund afloat until the Baby Boomers retire, as well as the changes that need to occur after the Baby Boomers have retired. We have short term, intermediate term and long term problems in Medicare.

In the short term, there are problems because of the budget. Most of Part B comes directly out of the general treasury. Part B has been growing at even faster rates than the trust fund, Part A, and therefore makes it more difficult to balance the budget.

In the intermediate run, we have a problem because in the next 4 years, the projections are that the trust fund which finances inpatient hospital, home care and skilled nursing funds will go bankrupt. Of course, we have the long term problem that is presented by the retirement of the Baby Boomers beginning in the year 2010.

We thought for a while that perhaps our life would be a little easier after the Congressional Budget Office released their 1997 baseline estimates of spending on Medicare. But in fact, now that we have now seen those new estimates, it is clear that basically the story remains the same. Medicare is still projected to grow at about 8.5 percent per year. By comparison the Federal budget during that same time is only growing at 5.2 percent per year and GDP is only expected to grow over the next 5 years at 4.8 percent per year.

The projections about the solvency of the trust fund remain as alarming as they had been. I'm going to refer during my few minutes of testimony to the three charts that are at the back of the written testimony that you received from me. They are also on the charts to my left.

In the first chart, what we see is that the story of the future of the trust fund is basically the same with the new CBO baseline estimates as it had been before. That is, the trust fund becomes insolvent in the year 2001, and it goes into deficit at alarming rates.

So by the end of 10 years, we are more than half a trillion dollars in the red by the end of 2007. Even for someone who used to have an annual budget of $200 billion, those are very large numbers indeed.

In order for the trust fund not to be completely exhausted by the end of 2007, we would need to have $450 billion of accumulated policy changes. Now, there are a variety of ways to achieve this. This is based on information that was also in a letter that was prepared at the end of January by the Congressional Budget Office. They indicate just three of the many ways that we could use to achieve solvency for the next decade. But the point I want to share with you is that all of them require a dramatic departure from present spending levels, or a substantial new infusion of funds.

As I've shown in chart two, if the growth rate in spending for the trust fund were reduced from the expected level of 7.7 percent to 3.4 percent for the entire period, then we would have solvency until 2007. There is an error in the chart in that the orange and the green lines should be flipped.

But frankly, for those who can see these charts, the message is very clear: delaying the onset of the changes by a year or two means that the magnitude of the reduction has to be even greater than the 4 percentage point reduction it would take if we were to start immediately, and that all of them show substantially slower rates of spending than we can otherwise expect to occur.

Alternatively, we could increase the combined employer-employee HI payroll tax by a third starting immediately in 1998, and that would also infuse enough new money. There is another alternative that has been proposed by the Clinton Administration, and that is to transfer $80 billion from home care into Part B. It has the main appeal that it buys time without either having to reduce spending as much or by infusing as much new taxes.

But I caution you to proceed in this direction with great care. The reason is because the normal restraints that go with Part B are not being included with this change of $80 billion into Part B. Normally, in Part B, elderly people pay 25 percent of the charges in terms of their premium, and the expense itself is subject to a 20 percent co-insurance rate. Neither of these provisions are being included with the transfer of the $80 billion.

There is of course even more problems than just getting the trust fund solvent to 2007, or even until when the Baby Boomers retire. If we could move to chart three, please, then I will conclude my testimony.

Right now, or in 1995, we see Medicare enrollees representing about 13.6 percent of the population, and Medicare spending about 2.6 percent of the GDP. In 2010, which is at the very start of the Baby Boomers' retirement, the Medicare enrollees will be about 15.1 percent of the population, and Medicare spending is expected to about 4.5 percent of GDP.

By the time the Baby Boomers finish their retirement period of 2030, by the time the last of the Baby Boomers retires, that is, Medicare enrollees are projected to represent 22 percent of the entire population and Medicare spending under current law, 7.5 percent of GDP, or roughly three times what it is now in terms of the budget.

These are very dramatic changes. There are all sorts of ways to try to slow down the spending in the short term, the intermediate term and the long term, either by using very direct control, heavy direct controls that actually work, or by changing the benefits and design and incentives associated with the Medicare Program.

I would be pleased to discuss any of these ideas or the magnitude of the problem during the question and answer session.

[The prepared statement of Ms. Wilensky follows:]

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Center for Health Affairs

Retiring Baby Boomers: Meeting the Challenges

TESTIMONY

Presented to

Special Committee on Aging

U.S. Senate

By

Gail R. Wilensky, Ph.D.

John M. Olin Senior Fellow

Project HOPE

on

March 6, 1997

Mr. Chairman and members of the committee, thank you for inviting me to appear before you. My name is Gail Wilensky. I am a John M. Olin Senior Fellow at Project HOPE, an international health education foundation, and Chair of the Physician Payment Review Commission. I am also a former Administrator of the Health Care Financing Administration. However, I am here today to present only my own views on Medicare, and my testimony should not be regarded as representing the position of Project HOPE or PPRC.

In my comments, I will discuss some of the implications of the financial crisis facing Medicare. My concern is that most of the reforms considered in the last session of Congress and those already being raised in this session do not resolve the long term problems of Medicare and in many cases, not even the intermediate financing needs of Medicare. The public needs to be more aware of the magnitude of the changes needed to keep the Hospital Insurance Trust Fund afloat until the baby boomers begin to retire, in addition to the changes that will be needed to accommodate the baby boomers.

The Need for Reform

Medicare, one of the country's most popular social programs, is in serious need of reform. The most immediate problem facing Medicare concerns its future financing. Without substantial changes in Medicare's financing mechanisms, its benefits package, its payment policies or in the basic design of Medicare itself, it will be impossible to provide the medical security that Medicare has promised to present and future generations of seniors.

Medicare's current financing problems pose short term, intermediate term and long term difficulties for the program. In the short term, Medicare Part B represents a major drain on the budget since three-quarters of its spending is financed from general revenue. This spending exacerbates the deficit and makes it more difficult to reach a balanced budget. In the intermediate term, the Hospital Insurance (HI) Trust Fund will become bankrupt in the next four years and under current projections will accumulate enormous deficits over the next ten years. In the longer term, Medicare is not financially viable and with the impending retirement of the baby boomers and the future insolvency that implies, serious questions must be raised about the design of a Medicare program that will be sustainable in the 21st Century.

Spending Rates and Solvency Issues

At a time when spending in the private sector has slowed significantly, spending on Medicare continues at unsustainable rates. Private sector growth rates which exceeded Medicare rates in the 1980's have been growing at a slower rate than Medicare since the early 1990's, even after adjusting for population growth. In 1996, private sector spending increased at a rate of 3.2 percent; Medicare at a rate of 8.5 percent.

Using the recently released Congressional Budget Office January 1997 baseline estimates, Medicare is still projected to grow at a rate of almost 8.5 percent per year over the next five year budget period. Comparatively, during this same period, total Federal Budget Outlays are only projected to grow at an average annual rate of 5.2 percent and the Gross Domestic Product is projected to only grow at an average annual rate of 4.8 percent.

The projections for the solvency of the HI Trust Fund are alarming. Most of the lower spending growth (.5 percent per year) projected for Medicare from the 1997 CBO baseline came from Part B reductions. The Trust Fund is still projected to be bankrupt in 2001, with accumulated deficits of more than half a trillion dollars by 2007 (see Chart 1).

In order for the Trust Fund not to be completely exhausted before the end of 2007, there needs to be $450 billion dollars of accumulated policy changes. As a CBO memo dated Jan. 29, 1997 indicates, there are a variety of ways this could be accomplished but all of them require a dramatic departure from present spending levels or a substantial infusion of new funds.

As shown in chart 2, if the growth rate in spending for the Trust Fund were reduced from the expected level of 7.7 percent to 3.4 percent for the entire period, 1998 to 2007, solvency would continue until 2007. Reductions in the growth rate could be postponed until 1999 or 2000 but the subsequent rates of growth would have to be reduced even further in order to maintain solvency through 2007. Alternatively, the combined employer-employee HI payroll tax could be increased by one-third, starting in 1998. All of these proposals involve a more radical change than any of the proposals of the last session had contemplated.

Yet another alternative is to transfer a portion of the current obligations of the Trust Fund to another source of funding, as has been proposed by the Clinton Administration. The main appeal of the transfer is that it "buys time" by extending the life of the Trust Fund without having either to reduce spending or raising taxes to the degree otherwise needed. The transfer of a portion of the home health care benefit into Part B has been justified at a policy level on the grounds that approximately half of home care is no longer associated with a hospital stay and is therefore no longer logically associated with Part A.

However, the terms of the transfer of $80 billion of home care should be considered carefully because of the precedent it sets in transferring an obligation into what effectively is the general revenue of the Treasury. Normally, when an expense is brought into Part B, a portion of the total spending becomes part of the premium paid by the elderly and the expense itself is subjected to a 20 percent coinsurance charge. This is not being done for the home health care transfer. While an argument can be made that the separation of Medicare into Parts A and B, with two separate streams of funding is an archaic holdover from Medicare's inception, removing the limited cost constraints that now exist without reforming the entire program is very risky.

The problems which have been receiving the most attention involve financing Medicare until 2002 and the implications of keeping the Trust Fund solvent for the next decade. Although the problems are less immediate, the implications of the impending retirement of the baby boomers are profound. In 1995, Medicare enrollees represented 13.6 percent of the population and Medicare spending as a percentage of GDP was 2.6 percent. In 2010, when the first of the boomers start to retire, Medicare enrollees will be 15.1 percent of the population and spending on Medicare is expected to be 4.5 percent of GDP. By 2030, when the last of the boomers will be retiring, Medicare enrollees are projected to represent 22 percent of the population and Medicare spending as a percentage of GDP is projected to be at 7.5 percent or almost three times what it was in 1995. These are shown in chart 3.

Present Structure of Medicare

There has been an enormous change in the organization and delivery of health services in the private sector. While not all of the changes have been regarded as desirable, there has been a noticeable decline in spending growth for the private sector already noted. And CBO projects that a decade from now, private sector spending will be increasing at a rate of 5.5 percent while Medicare spending will increase at a growth rate of 9.1 percent. Even adjusting for the expected Medicare enrollee growth, this suggest a growth in spending of almost 7.5 percent.

Despite all of the changes now occurring in the private sector, Medicare continues to remain primarily a fee-for-service program, with limited availability of and participation in any form of managed care. The projections for 1997 indicate an expected enrollment of 4.4 million seniors in risk-based HMO's, representing 12 percent of all enrollees. While the enrollment in HMO's has grown rapidly over the last several years, and is expected to continue growing rapidly for the next decade, even by 2007, it is expected that two thirds of the Medicare population will still remain in the traditional program.

There are several reasons that explain the relatively small numbers of seniors in managed care, but one of the most important reasons is the limited types of non-HMO managed care options available to the Medicare population, the very population that most needs and probably most desires flexibility. Medicare Select, a PPO offering for Medigap, is finally available across the country and a heavily regulated type of point-of-service plan was made available in 1996 but is not yet available everywhere. A Medicare Choices demonstration is setting up a number of provider service network and partial capitation models of managed care, but it will be years before an evaluation of this limited set of options is likely to be available. Even promising demonstrations may not result in changed legislation.

In addition to the limited options that have been available and the lack of incentives for the elderly to be cost conscious, there are also some significant problems with the way payments are made to HMO's. These problems relate both to the geographic variations that occur across the country and the lack of adequate risk selection adjustments.

Payments to HMO's reflect the Medicare spending per capita that occurs within the geographic area. These payments, called the Adjusted Average Per Capita Cost (AAPCC), vary enormously from a high of more than $750 per person per month to a low of $220 per person per month.

Differences in the AAPCC reflect different practice styles and different health risks both of which lead to different volumes of services used. To a small extent, they also reflect differences in costs of living. Not surprisingly, HMO growth has been greatest in the areas where the capitation rate is very high and HMO's are able to offer many extra benefits at no additional cost to the senior.

By setting the capitation payment rate at 95% of the rate of spending that occurs under the traditional program and having the traditional program operate as an open-ended entitlement, the government guarantees it cannot save money by having seniors choose an HMO, other than the 5% it would save assuming there was no favorable risk selection. The issue of risk selection, however, has raised the possibility that the capitation payment may actually cost the government money. This would happen if the elderly choosing HMO's are healthier than the elderly in their same age/sex categories and if they would spend less than 95% of the average were they to stay in traditional Medicare. While it appears that the elderly choosing an HMO use less services and are healthier the year before they enter an HMO, it is unclear how much favorable selection persists over time for the vast majority of seniors who remain in HMO's.

In sum, the present structure of Medicare hardly makes it surprising that it is facing financing problems. The elderly have limited options in the health care plans available to them. Medicare pays most of the costs for the services it covers and almost all of the elderly have coverage that is supplemental to Medicare, either privately purchased Medigap or Medicaid. That means there is little reason for an elderly person to seek out cost-effective physicians or hospitals, or to use lower cost durable medical equipment, laboratories or outpatient hospitals.

Under traditional Medicare, physicians, outpatient clinics, home care providers, skilled nursing facilities and other providers also have little reason to provide cost-effective care if there is any medical gain to be had from providing more services or even only some reason to fear legal repercussions if they do less than they might have done and the patient has an adverse outcome. Payments to capitation plans follow payments in fee for service and to the extent risk selection occurs, enrollment in HMO's could even cost the government money. Ultimately, we need to reward the elderly for choosing more cost-effective health care, to provide incentives for physicians and hospitals to order and prescribe cost-effective medicine, and a willingness to share the savings which an aggressive reorganization of health care can produce. The only other choice is to invoke sufficiently tight controls on spending so that Medicare spending can be guaranteed to grow at more sustainable rates despite the perverse incentives currently associated with the program.

Restructuring Medicare

The use of a better designed AAPCC, the payment currently used for HMO's, could become the basis for a voucher type payment which would encourage more cost-effective choices by seniors. In order to make this transformation, it would be necessary to redesign the determinants of the AAPCC to make it more stable than it is now and to take better account of risk selection than appears to occur. It also needs to be unlinked from spending in an open-ended entitlement, either being set by competitive bid or by administrative fiat. Government spending in the traditional Medicare program also needs to be limited to the same rate of increase as occurs in the capitated plans if seniors are to be encouraged to choose between traditional Medicare and capitated plans and among capitated plans on the basis of their cost-effectiveness and the seniors' own preferences

The closest approximation of the structure implied by this alternative model for Medicare is the Federal Employees Health Benefits Plan (FEHB). In such a reformed Medicare, traditional Medicare would become one of the plan offerings and the premium payment by the government would be the same irrespective of the choice made. This model assumes many more choices available to seniors than is currently available, an annual enrollment process, more information available to seniors about the choices available, monitoring or control of the enrollment process and oversight of plan performance. The level of payment made by the government could be set by a weighted average of plans available, by a competitive bid of plans in an area or as a percentage increase over existing rates.

Some Specific Medicare Problems

Aside from the more general issues of restructuring Medicare, there are some specific problems currently facing the Medicare program which need to be resolved.

In the near term, it is important to recognize that 88 percent of Medicare enrollees are in traditional Medicare and if current law were to continue, CBO estimates two thirds of Medicare enrollees would remain in the traditional program in 2007. There are management strategies which are routinely used by the private sector to improve efficiency which also could be used in Medicare. These include physician profiling, case management, practice guidelines and the bundling of payments. Several of these have or are currently being tried by HCFA as part of a demonstration but HCFA needs to be able to take the early results of demonstrations and move on them more rapidly than has seemed possible in the past.

There are several areas in Part A of Medicare that also need to be addressed in the near term. These include strategies for slowing the growth in home health, hospice and other non-hospital services through prospective payment, co-payments or other policies, and reforming payment methodologies for hospital outpatient departments. In its recent budget submission, the Clinton Administration has proposed using prospective payment, at least in principle, for outpatient visits, home care and skilled nursing visits. Although it is not yet clear precisely how these payment changes would be implemented, the use of prospective payment should reduce the incentives for additional visits within each episode or case. Prospective payment will not directly affect the increasing numbers of people who have been receiving home care or outpatient care and may even exacerbate the likelihood of volume increases in these areas.

One way to address the volume problem observed in outpatient, home health and skilled nursing home visits in a direct control environment is to link the level of reimbursement paid to overall spending in each sector. This could be done whether or not prices are set on a unit basis, an episode basis, or a case basis. This type of strategy underlies the linkage between the volume performance standard, that is the physician spending goal set by Congress each year, and the subsequent change in fees paid to physicians. It has been an effective direct control strategy in slowing down physician spending and could be used elsewhere in Medicare

There are also several areas concerning the AAPCC that need to be addressed, regardless of whether it becomes the basis for restructuring the entire Medicare program. These include limiting the extreme variations in the AAPCC and introducing better risk adjusters. Also both as part of the AAPCC and as a more general issue in Medicare, reforms need to be made in the payments that are being made for graduate medical education.

Concluding Note

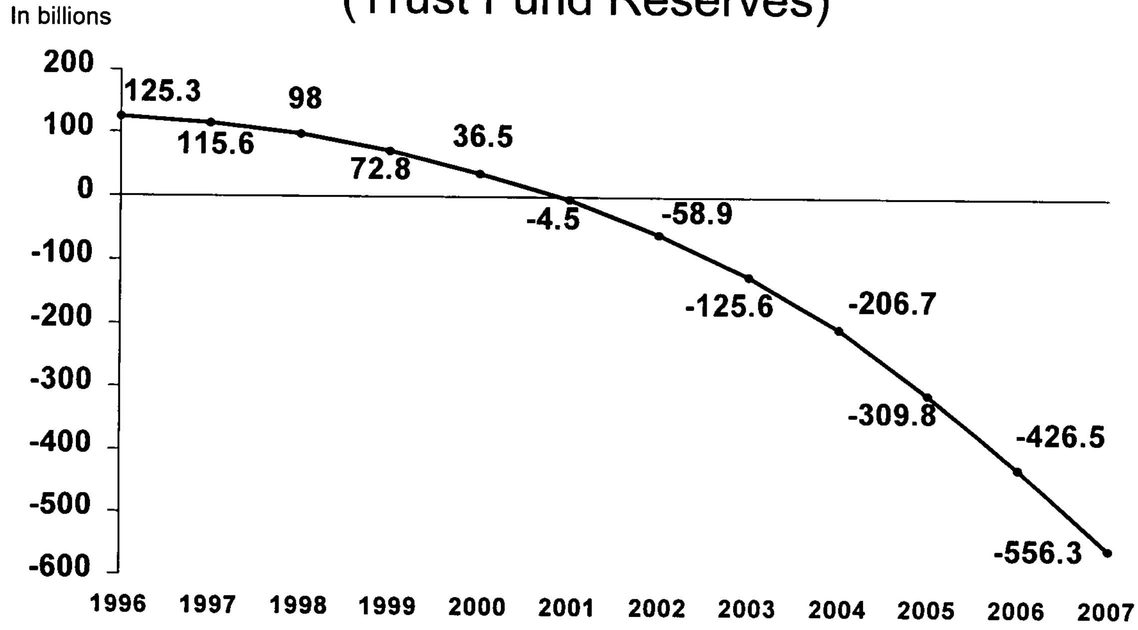
Much of the attention in the months ahead will be on ways to produce Medicare savings needed for a balanced budget bill. It will be very important that the Congress be selective about the types of short term savings that are pursued to be sure that they are consistent with a reformed Medicare structure, including making the direct control aspect of traditional Medicare more effective then it has been in the past.

It is possible to accommodate the need for short-term revenue increases and also set the stage for the more fundamental changes in the incentives, information and options that are needed to reform the Medicare program. Since it will take some time to restructure Medicare and to realize the gains from reforming Medicare, it is important that these reforms be started as soon as possible. This session of Congress is none too soon to start.

Chart 1

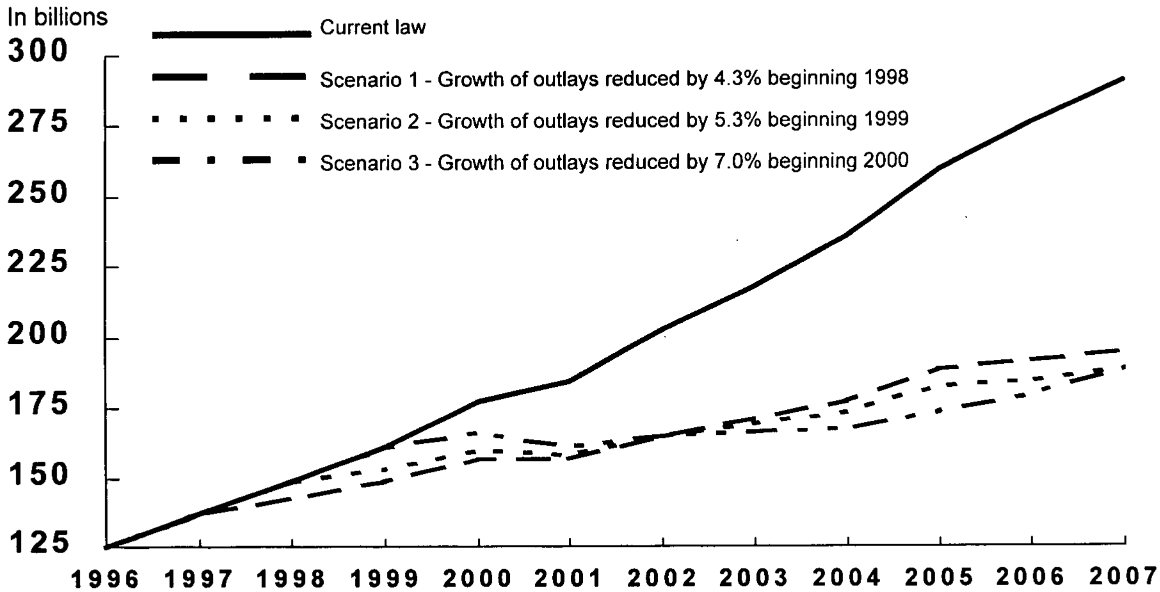
Part A Trust Fund Empty in 2001

(Trust Fund Reserves)



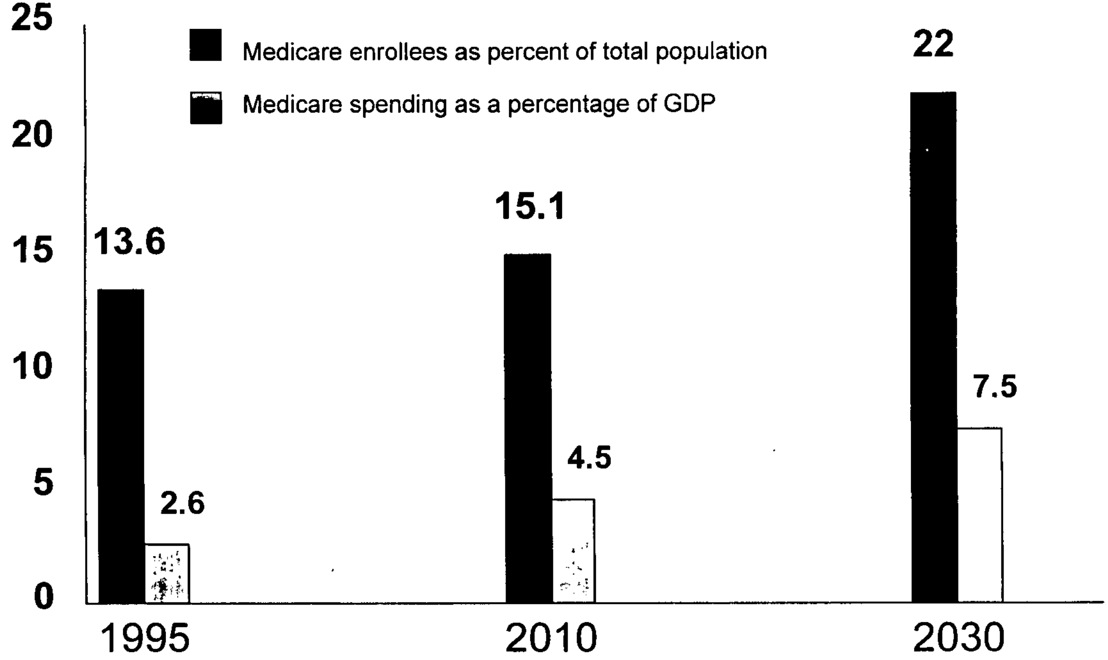
Source: CBO January 1997 Baseline

Chart 2
Hospital Insurance Trust Fund Outlays



Source: CBO,January 1997

Chart 3
Growth in Population vs Growth in GDP



The CHAIRMAN. Thank you, Dr. Wilensky.
Mr. Walker.

STATEMENT OF DAVID M. WALKER, PARTNER, GLOBAL MANAGING DIRECTOR, ARTHUR ANDERSEN LLP

Mr. WALKER. Thank you, Mr. Chairman. It's a pleasure to be before you here today.

In addition to my background that the Chairman mentioned, the committee may be interested to know that I was a public trustee of both Social Security and Medicare, Assistant Secretary of Labor for ERISA, and former head of the Pension Benefit Guaranty Corporation, which may be relevant during the Q&A period.

I've been asked this morning to address the current and projected condition of the OASI, the Old Age Survivors Insurance Program, portion of Social Security, which is the retirement income portion. While it's a pleasure to be here with you, I can tell you it's with mixed emotion, because Mr. Chairman, as members of the committee probably know, the executive memorial service for Marty Slate, who was the most recent director of PBGC, is being held this morning. Marty was a bright and dedicated public servant as well as a good friend. I know that several of us wish we could be at his memorial service. But we're pleased to testify on this important topic.

According to the 1996 annual OASDI report of the trustees, the OASI Trust Fund held $458 billion in U.S. Government securities at December 31, 1995, and experienced a $45 billion surplus for the calendar year then ended. While the 1997 report has yet to be issued, it's expected to show that the OASI Trust Fund had $514 billion in Government securities therein as of December 31, 1996, and experienced a surplus of approximately $56 billion for the calendar year then ended.

So the short term financial picture looks good. However, a midrange and long range financial challenge is clearly there.

According to the 1996 OASDI report, the program met the trustees short term trustees' test of financial solvency. However, it did not meet the 75 year long range test of financial solvency. Based upon the 1996 report, the OASI imbalance amounted to about 1.85 percent of taxable payroll. In other words, if you merely increased taxes in 1997 by 1.85 percent, then that would have put the OASI program in financial balance for the next 75 years.

However, each year we drop a good year and add a bad year. Therefore, that would not take care of the long range problem.

The 1996 annual report projected that, based upon the trustees' best estimate or intermediate assumptions, the OASI Trust Fund, that's just OASI, not OASDI, would be exhausted in the year 2031. It's 2029 if you combine the two.

While the trust fund would be exhausted in 2031, it wouldn't be without resources. It's projected that for the year 2031 to the year 2070, OASI has projected revenues equal to about 75 percent of projected expenses and benefit payments. So there's about a 25 percent imbalance on the revenue side.

Given that fact, if you merely waited until 2031 to do anything, and assuming that these estimates are accurate, they are good faith and are reasonable estimates, but I will touch on that in a minute, that if the Congress waited until 2031, it would either have to reduce benefit payments by 20 percent effective immediately or increase taxes by 25 percent effective immediately.

Alternatively, more timely reforms would serve to lessen the degree of changes necessary to restore the financial integrity of the OASI Program.

Now, 2031 may be years away. However, history shows that the projected exhausted date is likely to come sooner than expected. I've got a CED chart which illustrates this point now my numbers are OASI, these are OASDI, there's a slight difference. In 1983, after the Social Security changes were enacted, the program was expected to have adequate assets until 2062. By 1991, it had declined to 2045. For the 1996 report, the exhaustion date was expected to be 2031. That is 31 years quicker than 1983. Therefore, if there's a further acceleration, we shouldn't be surprised.

While the Trust Fund showed that we should have adequate assets to pay full benefits on a timely basis until 2031, there is a much earlier fiscal challenge that the country faces in connection with the OASI Program. Specifically, starting in the year 2014, just 2 years after the first Baby Boomer is eligible to retire, there will be a negative cash-flow position experienced by the OASI Program, namely, cash disbursements, will exceed income received for that year.

Once the program begins to experience a negative cash-flow, which is 2014, not 2031, the Federal Government will generally be required to take one of three steps in order to generate the necessary cash to pay OASI benefits and expenses on a timely basis, primarily because the securities are not readily marketable U.S. Government securities. We will either have to raise taxes, reduce benefits or refinance the obligations and sell them to willing buyers.

The refinancing of the obligations will do nothing more than delay the time when tax increases or benefit modifications would have to be made.

The OASI Program does not face an imminent financial crisis. However, it does face a mid term financial challenge due largely to known demographic trends. The next chart will illustrate this point. Let me summarize it for you.

In 1950, this country had 16 workers for every person eligible for Social Security benefits. By 1996, that had declined to 3.4 to 1. By 2030, it will be less than 2 to 1. These are demographic facts. This is a demographic tidal wave that we must deal with.

The OASI Program does not face an immediate financial crisis. However, I believe, and many others do, that we are currently experiencing a growing crisis of confidence among the American people in connection with the Social Security and Medicare Programs. This crisis of confidence spans many generations. Many seniors are concerned that their OASI benefits will be slashed, and that they won't have either the time or the means to compensate for it. Many Baby Boomers, such as myself, and Generation X-ers, don't think that the OASI Program will be there for them. According to a recent survey, 75 percent of Baby Boomers believe in UFOs', but they don't believe that Social Security will be there for them or for Generation X-ers.

All of these groups are incorrect. We can prove them incorrect through enacting comprehensive, timely and fair reforms that achieve certain objectives that I outlined in my statement.

Importantly, achieving the needed OASI Program reforms will require the development of non-partisan policy options and the pursuit of bipartisan Congressional action. Any successful reform package will also require a balancing of policy and political considerations. Importantly, Congressional legislative action will have to be preceded by a major national campaign to educate the American public as the nature and extent of our challenges, the various options and their implications, and any recommended approaches to reform.

In pursuing OASI reform policymakers must recognize that any modifications to the OASI Program will also have a ripple effect on other important retirement income and health care programs. As a result, one has to recognize the need to address the private sector retirement income programs. There will be an increasing need to stimulate the employer and union sponsored retirement income programs, and an increasing need to encourage individuals to save, plan and invest for retirement. So we need to recognize that.

In closing, Mr. Chairman, while the natural tendency may be to delay action on this program until it's required to be taken, that is not in the national interest. Action on OASI reform may be politically risky, but it is an economic necessity. We need to begin to address this issue in order to restore the confidence of the American people in the OASI Program and the Congress' ability to deal with it.

Importantly, and I believe this is very important, if we act in an appropriate manner, we can create a win-win scenario with legacy potential for any individual who dares to act, and why? Because today's seniors believe that they are going to be cut significantly, realistically that's not going to happen. We're going to have to come up with a plan that has a transition period.

Therefore, realistically, today's seniors will not be affected to any significant extent. Whereas most Baby Boomers and Baby Busters don't think they're going to get much from Social Security. Therefore, if we can craft a timely, comprehensive solution, we will exceed the expectations of all generations of Americans. That's what we should strive for.

The time for statesmanship is now. Action should begin in earnest. I commend the committee for this hearing, and I stand ready to help the Congress in addressing these important public policy issues, as you so desire.

Thank you.

[The prepared statement of Mr. Walker follows:]

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SENATE AGING COMMITTEE
SOCIAL SECURITY'S FINANCIAL CONDITION
MARCH 6, 1997
BY: DAVID M. WALKER, CPA
PARTNER, GLOBAL MANAGING DIRECTOR
ARTHUR ANDERSEN LLP

Mr. Chairman and members of the Committee, my name is David M. Walker. I am a Partner and Global Managing Director with the international accounting and consulting firm of Arthur Andersen LLP. My background includes serving as one of two Public Trustees of the Social Security and Medicare Trust Funds, as Assistant Secretary of Labor for Pension and Welfare Benefits and as head of the Pension Benefit Guaranty Corporation (PBGC). Most recently, I authored a book entitled: Retirement Security: Understanding and Planning Your Financial Future (John Wiley and Sons, 1997, New York, NY). This book includes a significant amount of useful information regarding Social Security, Medicare, private pension and retiree health plans, individual retirement savings vehicles and personal retirement planning and investment matters.

I am appearing before you today at the request of the Committee to address the current and projected financial condition of the Social Security retirement income program, the Old Age Survivors Insurance (OASI) program. To do so, I will first outline the relevant information contained in the 1996 Annual Trustees' Report. I will then discuss some of the related implications and the need for action to address our related challenges.

CURRENT AND PROJECTED FINANCIAL CONDITION OF THE OASI PROGRAM:

The Trustees of the Social Security and Medicare programs prepare an annual accounting of these programs for the Congress and the American public. This annual accounting is due by April 1 of each year. Since the 1997 Annual Trustees' Report has yet to be issued, I will base my comments primarily on the 1996 Annual Trustees' Report. This report was issued in the first half of 1996 and covered the 1995 fiscal year. It also included a projection of the financial condition of the OASI program over the 75 year period ending in 2070. This long-range projection is important as a means to advise the Congress and the American people as to the likely condition of these programs in the years in which several generations can be expected to receive OASI program benefits. Specifically, a 75 year projection period is necessary in order to assess the likely financial condition of the OASI program for all individuals currently paying OASI payroll taxes, including new entrants into the workforce.

According to the Trustees' 1996 Annual OASDI Report, the OASI Trust fund held approximately $458 billion in U.S. government securities as of December 31, 1995. In addition, the OASI program ran an approximate $45 billion surplus for the year then ended. While the 1997 Trustees' Annual Report has yet to be issued, it is expected to show that the OASI Trust Fund held about $514 billion in U.S. Government securities at December 31, 1996 and experienced an approximate $56 billion surplus for the year then ended. Importantly, under current law, all annual OASI program surpluses must be invested in certain U.S. government or agency securities. The current government bonds held in the OASI Trust Fund bear market rates of interest at their date of issue, carry maturities of up to 15 years and are not readily marketable.

According to the Trustees' 1996 OASDI Annual Report, the OASI program met the Trustees short-term (10 year) test of financial solvency. The OASI program did not, however, meet the Trustees' long-range (75 year) test of financial solvency. The 1996 Annual Report also disclosed that the estimated 75 year financial imbalance in the OASI program amounted to approximately 1.85% of taxable payroll.

The 1996 Annual report projected that, based on the Trustees' intermediate (best estimate) set of assumptions, the OASI Trust Fund would be exhausted in the year 2031. The projected exhaustion date is significant since, beginning in that year, the government will no longer be able to pay full OASI benefits on a timely basis. However, while the program would not be able to pay full benefits, the OASI program would still have a significant revenue stream for benefits and program expenses. Specifically, the OASI program is expected to have revenues equal to approximately 75% of projected benefit payments and administrative expenses during the period 2031-2070.

Given the above, based on the 1996 Trustees' Annual Report, OASI program revenues would have to be increased by 25% or benefit payments reduced by 20% beginning in 2031 in order to restore the financial integrity of the current program. Alternatively, more timely reforms would serve to lessen the degree of changes necessary to restore the financial integrity of the OASI program.

The 2031 projected OASI exhaustion date may be a number of years away, however, history shows that it is likely to come sooner than projected. Specifically, after Congress enacted the 1983 Social Security reforms, the Trustees' projected that the OASI program would have adequate assets to pay full program benefits on a timely basis until about 2062. By 1991 the Trustees' projected exhaustion date had accelerated to 2045. As previously noted, the 1996 Annual Trustees' report projected the OASI Trust Fund will be exhausted in 2031. This is 31 years sooner than predicted in 1983. All of these projected dates are based on the Trustees' intermediate (best estimate) assumptions for the respective years. Unfortunately, history has generally shown that actual program experience is likely to fall between the Trustees' best estimate and high cost sets of assumptions. As a result, a further acceleration of the projected exhaustion date should not be surprising.

While the 1996 Annual Trustees' Report noted that the OASI Trust Fund would be able to pay full benefits on a timely basis until 2031, there is a much earlier fiscal challenge relating to the OASI program which needs to be addressed. Namely, based on the Trustees' 1996 Annual Report, the OASI program is projected to enter a negative cash flow position in the year 2014, just two years after the first "baby boomer" is eligible for normal retirement. Beginning in that year, annual benefit payments and administrative expenses are expected to exceed payroll taxes and other revenues. In addition, the projected annual OASI deficits accelerate rapidly each year thereafter. For example, these annual OASI cash flow deficits are expected to grow to over $374 billion in the year 2025 alone.

Once the program begins to experience a negative cash flow position, the federal government will generally be required to take one of three steps in order to generate the necessary cash to pay OASI benefits and expenses on a timely basis. Specifically, absent any OASI program changes before 2014 or the government's simply resorting to increasing the money supply in an inflationary manner beginning in 2014, the government will either have to increase OASI tax revenues, decrease OASI benefits/expenses, or revise the current nature of the government bonds held by the trust fund and sell them to willing third party investors. Obviously, the government could also take some combination of these actions in order to bring the OASI program into annual balance if it so chose.

RECENT OASI PROGRAM REFORM RECOMMENDATIONS:

A number of groups have recognized the projected financial imbalance associated with the OASI program. In fact, an ever increasing number of organizations have began to call for reform of the existing OASI program. Many of these organizations have made specific recommendations for consideration by the Congress and the Administration.

The most notable OASI program reform group which has made already made recommendations is the 1994-1996 Advisory Council on Social Security (the "Council"). This statutorily mandated group issued their report in December 1996. While the Council agreed on the need to reform the OASI program, they did not agree on how to do it. In fact, the Council's report included three separate sets of recommendations for reforming the OASI program. Importantly, none of the three reform proposals received the support of a majority of the 15 Council members. This division serves to underscore the degree of difficulty in reaching agreement on how to reform the OASI program.

While time does not allow me to summarize the three reform proposals submitted by the Council, a few related comments are appropriate. Seven of the fifteen Council members voted for a "maintain benefits" option. Under this proposal, the basic defined benefit oriented structure of the current OASI program would not be changed. However, some program changes would be enacted and the current investment restrictions relating to the OASI Trust Fund would be modified to allow for investment of up to 40% of the Trust Fund balance in equity securities.

The remaining two Council reform options called for more fundamental changes to the current OASI program. These were called the "individual accounts" and "personal security accounts" options. Both of these options included recommendations to move from the current defined benefit OASI program structure to a "two-tiered" benefit structure. Under the two tiered structure, a base (but generally lower) defined benefit element would be retained in order to provide for a foundation of certainty and security for lower income retirees. In addition, both options recommended creating a second defined contribution oriented individual account tier. The nature, amount, transition and investment of this second tier benefit varied between the two proposals. Generally, the "personal security account" option called for a smaller base defined benefit amount, a larger individual account element and a quicker transition. This results in sizable "transition obligations" which would need to be addressed.

While none of the three Quadrennial Commission reform proposals received the support of a majority of the fifteen members, nine members voted for one of two "two tiered" reform proposals. This two tiered approach is receiving increasing attention and support from a variety of groups. In addition , the Council did agree on a number of common elements. For example, the Council agreed that the OASI program should be a compulsory program whose base should be expanded to cover all new state and local government employees. The Council also agreed the any related program reforms should be enacted as soon in order to minimize the degree of change necessary and to provide more program flexibility in the future.

While the Council's report may be the most notable one to be released to-date, it is not the only one. Several other organizations have made OASI program reform recommendations and others plan to do so. For example, the Committee for Economic Development (CED) issued a OASI reform proposal in February 1997. This report called for timely action to reform the OASI program to meet three primary objectives. These primary CED objectives were to: 1) Restore the long-range financial integrity of the OASI program; 2) Improve the rate of return that individuals of various generations will receive on their OASI contributions; and, 3) Increase national savings associated with the OASI program.

The CED report included a number of OASI program reform recommendations and no additional payroll tax increases to fund the existing benefit structure. It did, however, call for a transition to a "two tiered" benefit structure comprised of a revised base defined benefit amount and a mandatory individual retirement savings account element. This new individual account element would be funded through a 1.5% mandatory contribution by workers and their employers. Individuals would have the ability to decide how to invest their individual account funds among a variety of specified passive investment options. This investment approach recommended by the CED is consistent with the general structure of the current Federal Thrift Savings Plan for federal workers.

Most recently, the Center for Strategic and International Studies (CSIS) formed a National Commission on Retirement Policy (the "Commission") to address a range of OASI, employer/union pension and personal retirement savings issues. This Commission is comprised of four members of Congress and approximately 18 members from the private sector. The Commission is bi-partisan in nature with a number of co-chairs, including Senators Gregg (R-NH) and Breaux (D-LA) and Congressmen Kolbe (R-AZ) and Stenholm (D-TX). The private sector Commission members include a variety of knowledgeable individuals, many of which have prior executive level experience in the federal government, including myself.

The CSIS Commission will attempt to make a range of retirement income policy recommendations spanning the Social Security (i.e., OASI), employer and union sponsored pension programs and individual retirement savings arrangements. The Commission is expected to issue its recommendations in 1998. Importantly, the Commission is expected to make a significant contribution to the effort to educate the Congress and the American public on the nature and extent of our retirement income policy challenges and the various options to address them.

CURRENT PUBLIC OPINION REGARDING THE OASI PROGRAM:

The OASI program does not face an imminent financial crisis. However, I believe that we are currently experiencing a growing crisis of confidence among the American public in connection with the Social Security and Medicare programs. This crisis of confidence is primarily attributable to a general and growing concern regarding the financial integrity of these programs and the apparent inability of the federal government to communicate candidly and deal effectively with the known challenges facing these important federal programs. Both the legislative and executive branches of the federal government have a responsibility to address this growing crisis of confidence. In addition, the private sector also has a responsibility to take steps to eliminate this crisis of confidence.

NEED FOR ACTION:

While the OASI program does not face an imminent financial crisis, it does face a mid-term financial challenge due in large part to known demographic trends. The most notable of these trends relates to the need to finance the significant OASI program obligations associated with the "baby boom generation" in the face of declining worker/retiree ratios. Specifically, we face rapidly accelerating OASI program obligations beginning in 2014. In addition, worker/retiree ratios have declined from 16:1 in 1950 to 3.4:1 today. They are projected to decline to less than 2:1 by 2030. Importantly, these demographic trends are a virtual certainty and the related implications on the financial condition of the OASI program must be addressed.

A growing number of individuals and organizations are calling for fair and timely action to restore the financial integrity of and public confidence in the OASI program. Fairness requires that any related program changes be balanced among different generations. At the same time, we need to consider the ability of individuals to adapt to any related program changes. Timely action is also appropriate since delay will only serve to increase the both the severity and difficulty of achieving the needed OASI program changes.

Achieving the needed OASI program reforms will require the development of non-partisan policy options and the pursuit of bi-partisan Congressional action. Any successful reform package will also require a balancing of policy and political considerations. Importantly, Congressional legislative action will have to be preceded by a concerted national campaign to educate the American public as to the nature and extent of our challenges, various options and their implications, and any recommended approaches to reform. After all, Social Security is the third rail of American politics and no politician wants to commit political suicide by getting to far in front of the American people of this important national policy issue.

Finally, in pursuing reform of the OASI program, policymakers must recognize that any modifications of the OASI program will also have a ripple effect on other important retirement income programs. Specifically, OASI program reforms will necessitate Congressional action designed to strengthen employer and union sponsored retirement income programs and individual retirement savings arrangements. These actions should include, but not be limited to, steps to increase current contribution and benefit limits, strengthen minimum funding standards, reduce inappropriate administrative burdens, enhance pension portability, improve the fairness of PBGC variable rate premiums and encourage preservation of pension savings for retirement income purposes.

SUMMARY:

The OASI program is one of the most successful in our nation's history. This program has served as a primary element in our fight to reduce poverty among the elderly. It has also served as the foundation in our nation's effort to assure that all Americans have a reasonable standard of living during their retirement years.

While the OASI program represents one of our most successful national programs, it faces a mid-range financial challenge. This financial challenge when coupled with the more immediate financial challenge facing the Medicare program has resulted in a growing crisis of confidence among the American public.

This current crisis of confidence spans several generations. Many seniors are concerned that their OASI benefits will be slashed and they won't have either the time or the means to compensate for it. Many baby boomers and Generation Xers don't think that the OASI program will be there when they retire. All of these groups are incorrect and we can prove that to them through enacting comprehensive, timely and fair reforms that serve to achieve the following key objectives: 1) Restore the long-range financial integrity of the OASI program, 2) Improve the rates of return on OASI related contributions; 3) Enhance the level of public understanding and support for the OASI program; 4) Stimulate the employer and union sponsored retirement income system; 5) Encourage personal planning, savings and investment for retirement, and 6) Increase overall national savings rates.

As stewards of our nation, we have a responsibility to address this growing crisis of confidence. Doing so will require fair and timely reform actions. It will also require a balancing of policy and political considerations. Congressional legislative action will also have to be preceded by a major national campaign to educate the American public regarding the nature and extent of our related challenges, options, and any recommended approaches. Determining the key principles to be followed and the key players who will be involved in this process will be critical to success.

While the natural tendency may be to delay action until it is required, this is not in the national interest. In addition, reforms of the OASI program should also be coupled with additional action in connection with employer and union sponsored retirement income programs and individuals retirement savings arrangements.

While action on OASI reform may be politically risky, it is an economic necessity. In addition, we need to begin to address this issue in order to restore the confidence of the American people in the OASI program and the Congress' ability to deal with it. Importantly, if we act in an appropriate manner, we can create a "win/win scenario with legacy potential for those who dare to act. After all, a properly designed and communicated reform proposal should exceed the current expectations of all generations of Americans.

The time for statesmanship and action is now. I stand ready to assist the Congress in addressing these important policy issues in a comprehensive, fair and timely manner.

The CHAIRMAN. Thank you, Mr. Walker.
Mr. Salisbury.

STATEMENT OF DALLAS L. SALISBURY, PRESIDENT, EMPLOYEE BENEFIT RESEARCH INSTITUTE; CHAIR, AMERICAN SAVINGS EDUCATION COUNCIL; MEMBER, NATIONAL COMMISSION ON RETIREMENT POLICY

Mr. SALISBURY. Mr. Chairman and members of the committee, it's a pleasure to be here.

My full statement provides a great deal of data, but I want to focus my limited time on the two specific questions that were asked in your letter. First, will employers be able to continue to provide the types of pensions and retirement income to Baby Boomers that they have historically provided.

Today approximately 24 percent of today's retirees receive some income from an employment based private pension. Of new retirees, that is running at about 50 percent. Based on the pension plans currently sponsored by private employers, approximately 70 percent of Baby Boomers will have income from retirement programs from employment. Employers are continuing to finance those programs, employers can continue. They are continuing to create new programs at a relatively fast rate.

So the potential for private pension income supplementation to private employees is positive and is growing more positive for the baby boom generation. That is particularly true since the new pension systems, the defined contribution programs like the Federal Employee Thrift Plan and 401(k) plans in essence provide benefits to the 80 percent of America's workers who have never spent a full career with one employer as compared to the roughly 20 percent of workers who have.

Ironically, contrary to popular mythology, very few of today's retirees have a traditional defined benefit pension plan. As many Baby Boomers and more will have those traditional plans. The difference that will make the Baby Boomers better off and is making new retirees better off is the supplementation with defined contribution and defined benefit.

By looking at a recent Census Bureau survey, for example, of Federal employees, over 85 percent of Federal employees identified the Federal Employee Thrift Plan as their primary retirement savings plan as compared to the Civil Service Defined Benefit Retirement Plan. One looks at the proportion of Federal workers who will not spend many years as a Federal employee. In the past, at the highest point, only 25 percent of those who ever joined the Federal Government stayed long enough to gain a meaningful benefit from the Defined Benefit Plan of the Federal Government.

So the shifting in the system, based on the data, is leading to higher retirement income prospects for the baby boom, not lower.

The second question related to retiree medical benefits. Again, there has been some mythology that all of today's retirees have retiree medical supplementation from employers. In point of fact, of today's retirees, only approximately one-third have any retiree medical benefits through an employment based sponsorship in addition to Medicare.

Of those, only 4 percent of all of today's retirees have a program that the prior employer pays 100 percent of the costs. Approximately 50 percent, or if you will, 15 percent of today's retirees, have a program where the employer pays part of the cost and 46 percent of retirees who have some health insurance through a private employer and prior employer pay 100 percent of the cost for that retiree medical coverage.

Employers are continuing to provide those benefits. Baby Boomers at that one-third level are likely to have some support from their employers. But I would underline that the real challenge for the Baby Boomers is the same challenge as today's retirees, that is, finding a way to supplement Medicare, because the employment based system has in fact not done that, it never did, it does not today, and frankly, it will not in the future.

The third issue that was raised is what, vis-a-vis all of this change, the Nation can be doing to prepare people. I would underline the candor of today's hearing, and the growing results of the public surveys that indicate that individuals are concerned about their retirement futures. Based on Ms. Wilensky's presentation and Mr. Walker's numbers, this does not represent cynicism among today's workers, this represents realism. Realism that Social Security never provided an adequate benefit for retirees, and that it never will and that they must supplement.

We have too long said to people, Social Security will be there, don't worry. We have for too long said, if Social Security isn't enough, an employer will take care of it, don't worry. The numbers indicate that that has never been being candid with the American public. It is not representative of retirees today.

The candor today that says to people, you must be concerned about doing something to supplement employment based programs and Social Security, and Medicare, is the candid way to be going. Many, many efforts across the Nation to do that, one that we are involved with, the American Savings Education Council, hopes to take to the Nation that message of prepare today so that you can effectively retire tomorrow.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Salisbury follows:]

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T- #102

Statement Before

The U.S. Senate Special Committee on Aging

Hearing on

"Retiring Baby Boomers: Meeting the Challenges"

Testimony of Dallas L. Salisbury
President, Employee Benefit Research Institute (EBRI)
Chair, American Savings Education Council (ASEC)
Member, National Commission on Retirement Policy (CSIS)

Washington, D.C.

March 6, 1997

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Testimony Summary

Mr. Chairman and members of the Committee, my name is Dallas Salisbury. It is a pleasure to be here this morning to discuss "Retiring Baby Boomers: Meeting the Challenges." I ask that my full submission be made a part of the record of the hearing.

The mission of the Employee Benefit Research Institute (EBRI) is to contribute to, to encourage, and to enhance the development of sound employee benefit programs and sound public policy through objective research and education. EBRI does not lobby and does not take positions for or against legislative proposals. The goal of the American Savings Education Council (ASEC) is to make saving and planning a vital concern of Americans and recognized as in the economic interests of employers.

I was asked to comment this morning on "the ability of private employers to provide retiree health and pension benefits comparable to current levels for the baby boom generation when it enters retirement in 2010 and after," and on other challenges faced by the baby boom generation as it approaches retirement.

Given limited time this morning, I want to use data to emphasize a few points that put the situation of the baby boomers in perspective relative to present retirees. The data show that there is a great deal of mythology in the retirement discussion. Notably, the data show that:

- Social Security has never provided an adequate income. With changes already enacted to increase the retirement age, and assuming no payroll tax increases, the baby boomers' benefits will be an average of just under 30 percent of income instead of today's 42 percent. This will require individuals to work longer and to save more. Private employers are beginning to communicate these facts to employees in order to encourage them to save more.

- Few of the baby boomers' parents had full careers with one employer. Pensions formed in the years prior to 1980 focused on the approximately 20 percent of workers who spent a full career with one employer. Defined benefit pensions were sponsored by most large private employers to do this, and large employers have also generally sponsored defined contribution savings and 401(k) plans to assist both long-service and shorter-service employees. Small employers never sponsored plans on a widespread basis but have since the advent of tax-deferred individual salary reduction plans like 401(k) plans (1981) and the Federal Employee Thrift Plan (1984). Significant legal changes in terms of vesting, funding, and tax rates, have made Defined Benefit plans much more expensive yet difficult to advance fund. Employers can, in the absence of a dramatic drop in the markets or a dramatic run of high inflation, afford to continue defined benefit plans now in existence. However, for demographic, work force mobility, and employee preference reasons, they may choose not to do so. Private employers provide more retirement savings for the average baby boomer than they have to the average retiree today.

- Few of the baby boomers' retired parents have income from a traditional defined benefit pension plan or employer paid retiree medical benefits. This is contrary to much of what is written without attention to the available data, but 24 percent of retirees reporting private pension income, and 10 percent reporting fully employer-paid Medi-gap protection, cannot be presented as a panacea. It is very important to those who have it, but when considering the cost and implications for the baby boomers, it should not be overstated. Employers have shown that they cannot, on a widespread basis, afford to pay for retiree medical benefits pre or post 65. They do not today; they will not tomorrow. Private employers are communicating the retirement income and retiree medical savings need more heavily that at any time in the past so that the baby boomer has an opportunity, with employer assistance, to be better prepared in retirement than today's retiree.

- Few of the baby boomer' parents saved for their own retirement. This is contrary to the implicit suggestion that today's retirees are all on cruise ships and the golf courses, having saved for retirement. Income from assets is important to a small minority of retirees today, and baby boomers are doing better than their elders at building retirement assets. Employers can afford to sponsor a retirement savings plan, and when stable and profitable, they can afford to make employer contributions as well. They can communicate the need to save in these plans for all spending needs, including retiree medical expenses. Baby boomers need to save more, and they need to preserve lump-sum distributions on job change. This will require education and understanding. They are on a positive track in growing numbers, and with savings and planning campaigns like that of the American Savings Education Council and government partners like the Department of Labor and Treasury, the Federal Reserve, and the SEC, many successes will be recorded.

Conclusion

I want to thank the Committee for the opportunity to testify today and invite you to call on EBRI and ASEC in the future. The baby boom generation is beginning to save, but only one-third have yet done an estimate of how much they need to save for retirement. Employers are doing more now than ever before to raise this number. Employers recognize that while this is a higher proportion than among today's retirees, it leaves much room for improvement. Workers also underestimate how long they will live once retired but want to retire early. Education is focusing on this as well. This combination of factors tells us that baby boomers are on a better savings path than today's retirees, and they have the tools and the opportunity to do even better. The primary challenge for employers and the government is to provide individuals the education to assure that they become planners, savers, and investors, as we have moved from a system focused primarily on the few who work for one employer for a full career to all workers.

Testimony of Dallas L. Salisbury
President, Employee Benefit Research Institute (EBRI)
Chair, American Savings Education Council (ASEC)
Member, National Commission on Retirement Policy (CSIS)

Mr. Chairman and members of the Committee, my name is Dallas Salisbury. It is a pleasure to be here this morning to discuss "Retiring Baby Boomers: Meeting the Challenges." I ask that my full submitted testimony be placed in the record of the hearing.

I entered the retirement income field in 1975 with the U.S. Department of Labor and also served at the Pension Benefit Guaranty Corporation. Since 1978, I have been with the Employee Benefit Research Institute (EBRI), now serving as its President and CEO, and on its Board of Trustees. During 1995, we also established a new organization, the American Savings Education Council (ASEC), which I serve as Chairman and CEO.

EBRI's mission is to contribute to, to encourage, and to enhance the development of sound employee benefit programs and sound public policy through objective research and education. EBRI does not lobby and does not take positions for or against legislative proposals. ASEC's goal is to make saving and planning a vital concern of Americans and recognized as in the economic interests of employers.

EBRI published an *Issue Brief* in 1994 titled "Baby Boomers in Retirement – What Are There Prospects?" and held an invitational policy forum on the topic "Retirement in the 21st Century...Ready or Not...." The policy forum publication concluded:

"A review of the available evidence indicates that, on a total wealth basis and on a pension savings basis, those in the work force today are doing better than previous generations. However, a minority are building the individual and pension savings that will allow them to meet the goal of maintaining final employment income throughout retirement, without using real estate to produce income.

Should the timing and value of Social Security benefits, Medicare, and employer-based defined benefit and retiree medical benefits continue to be reduced, the levels of necessary saving will increase, not decline. Should the movement toward voluntary pension participation and lump-sum distributions continue, increases in participation rates and rates of rollover will be necessary to achieve the income levels projected by today's studies."

I was asked to comment this morning on "the ability of private employers to provide retiree health and pension benefits comparable to current levels for the baby boom generation when it enters retirement in 2010 and after," and on other challenges faced by the baby boom generation as its members approach retirement.

Given limited time this morning, I want to use data to emphasize a few points that put the situation of the baby boomers in perspective relative to present retirees. The data show that there is a great deal of mythology in the retirement discussion. Notably the data shows that:

- Social Security has never provided an adequate income. With changes already enacted to increase the retirement age, and assuming no payroll tax increases, benefits will be an average of just under 30 percent of income instead of today's 42 percent. This will require individuals to work longer and to save more. Private employers are beginning to communicate these facts to employees in order to encourage them to save more.
- Few of the baby boomers' parents had full careers with one employer. Pensions formed in the years prior to 1980 focused on the approximately 20 percent of workers who spent a full career with one employer. Defined benefit pensions were sponsored by most large private

employers to do this, and large employers have also generally sponsored defined contribution savings and 401(k) plans to assist both long–service and shorter–service employees. Small employers never sponsored plans on a widespread basis, but have done so since the advent of tax–deferred individual salary reduction plans such as 401(k) plans (1981) and the Federal Employee Thrift Plan (1984). Significant legal changes in terms of vesting, funding, and tax rates have made defined benefit plans much more expensive yet difficult to advance fund. Employers can, in the absence of a dramatic drop in the markets or a dramatic run of high inflation, afford to continue defined benefit plans now in existence. However, for demographic, work force mobility, and employee preference reasons, they may choose not to do so. Private employers provide more retirement savings for the average baby boomer than they have to the average retiree today.

- Few of the baby boomers' retired parents have income from a traditional defined benefit pension plan or employer–paid retiree medical benefits. This is contrary to much of what is written without attention to the available data. However, 24 percent of retirees reporting private pension income, and 10 percent reporting fully employer paid Medi-gap protection, cannot be presented as a panacea. It is very important to those who have it, but when considering the cost and implications for the baby boomers, it should not be overstated. Employers have shown that they cannot, on a widespread basis, afford to pay for retiree medical benefits pre or post 65. They do not today; they will not tomorrow. Private employers are communicating the need to save for retirement income and retiree medical expenses more heavily that at any time in the past, so that the baby boomer has an opportunity, with employer assistance, to be better prepared in retirement that today's retiree.

- Few of the baby boomers' parents saved for their own retirement. This is contrary to the implicit suggestion that today's retirees are all on cruise ships and the golf courses, having saved for retirement. Income from assets is important to a small minority of retirees today, and baby boomers are doing better than their elders at building retirement assets. Employers can afford to sponsor a retirement savings plan, and, when stable and profitable, they can afford to make employer contributions as well. They can communicate the need to save in these plans for all spending needs, including retiree medical expenses. baby boomers need to save more, and they need to preserve lump–sum distributions on job change. This will require education and understanding. They are on a positive track in growing numbers, and with savings and planning campaigns like that of the American Savings Education Council, and government partners like the Departments of Labor and Treasury, the Federal Reserve, and the SEC, many successes will be recorded.

It is important to note that the private employer pension system is in solid financial condition. As Chart 1 shows, asset growth in the system has been steady. Chart 2 highlights the assets resulting from the development of both defined benefit plans (the employer promises a given benefit and is responsible for funding it) and defined contribution retirement plans (the employer sponsors a plan for the employee to save on a pre-tax basis, and may also contribute). Baby boom retirees will do better than today's retirees as a group and as individuals due to this growing "hybrid" retirement savings system. Table 1 presents financial trends in private plans from 1975 to 1993. It shows that the defined benefit system has become quite mature (more on this later). The relative relationship of contributions to benefits shown in this table is also a result of the significant plan funding restrictions and income limitations placed in the law since 1982. These have kept employers from either providing the benefits they would like to provide or funding them as well as they would like to. This has reduced the baby boomers' retirement income prospects from employer plans. Table 2 shows the number of plans by type, participants, and primary plans. As the law shortened vesting requirements, it was understood that the role of defined contribution plans would become more important. One Census Bureau survey found that nearly 80 percent of federal employees, for example, view the Federal Employee Thrift Plan as their primary retirement plan, not the defined benefit plan. Chart 3 shows why this is true. The way in which benefit value builds in the two types of plans would cause any worker with less that about 25 years of service to receive more benefit from a defined contribution plan than from a defined benefit plan.

It is important to note that today's retirees did not save. As shown by charts 4 and 5 and table 3, Social Security is the primary source of income for most retirees. These retirees were told that Social Security benefits would allow them to retire at age 62 or 65, yet they were not given much information on what Social Security benefits would be. The implication was that benefits would be adequate. Today, we know the income replacement rates are modest for most, and that the maximum family benefit does not exceed $25,000. Those with employer pensions do better than others, but individual savings have never been high for most Americans. Chart 4 provides a picture of the relative role of income sources.

This highlights the first baby boomer challenge: getting good information on what Social Security might provide, recognizing that Social Security alone will provide adequate income for very few, taking action to get help from employers, and finally, proactively saving towards a secure retirement.

It is important to note that most workers have never spent a full career with one employer, and even fewer will do so in the future. Charts 6 and 7 provide a picture of job tenure across age groups.

A telling fact is that 50 percent of men aged 55 to 64 have spent 12 years or less with their present employer, and 50 percent of women in this group have spent 10 years or less. Table 4 provides similar news, with only 12.4 percent of those aged 55 to 64 reporting 30 or more years of service, and this number is dropping as well, even though it takes 30 years to achieve a maximum pension buildup. A system with cash benefit portability can deal with this issue. Chart 8 underlines the importance of tenure patterns relative to pension vesting, because rates rose dramatically as the law moved vesting requirements down to 10 years and then 5 years. As a result of these new requirements, while pension participation remained steady, actual entitlement to benefits rose sharply. In addition, the growth of defined contribution plans like the Federal Employee Thrift Plan and 401(k)s is very important to the baby boomers, as these plans allow them to build real value in spite of job movement.

This highlights the second baby boomer challenge: making certain that you save each and every year to ensure that your employer provides a defined contribution savings opportunity.

It is important to note that the increasing diversity of the pension system is good news, not bad, for the majority of workers due to job turnover patterns. Table 2 showed the relative existence and participation levels of defined benefit and defined contribution plans between 1975 and 1993. Defined benefit plans are primarily sponsored by the largest employers in the nation, both public and private. Since employment in organizations with more that 1,000 employees has been relatively steady in absolute numbers, but shrinking as a proportion of the labor force, the number of participants in these plans has remained nearly constant since 1980.

Defined contribution plans were always sponsored by the large organizations and favored by small ones. These plans generally include contributions by both the employee and the employer. The employer commits to sponsor the plan and may commit to contribute, but the employer makes no promise of a specific benefit at the end of the day. In other words, investment gains and the risk of loss rest with the individual. Since Congress acted in 1978 to allow tax-deferred contributions by both the employer and the employee, both the number of defined contribution plans and participants have grown steadily.

This highlights the third challenge related to the baby boomers: understanding what plans they have available to them, how to take advantage of them, and that any plan is better than no plan.

Plan type is less important than it used to be. This is due both to the legal requirement that all plans pay some benefits in the form of a lump-sum distribution and to accelerated vesting requirements. Chart 3 shows the pattern of benefit growth under the defined contribution and defined benefit plan approaches. It makes clear that for the mobile worker – that is, about 75 percent of workers – the defined contribution plan can lead to higher retirement asset accumulations. This makes the point that both plan types can serve valuable purposes, but one plan type does not fit all.

Chart 9 provides a 1990 data snapshot of pension benefit payments. The chart shows that a somewhat startling $107.2 billion was paid in lump sums in 1990, compared to $127.1 billion in annuity payments. Chart 10 shows why this raises issues for the baby boomers retirement futures: 44 percent of the dollars paid in lump-sum distributions are not saved for retirement, and 70 percent of the people who get them do not save them for retirement. Table 5 shows simulations of what baby boomer retirement income would look like if all lump-sum distributions were rolled over and saved for retirement. Instead of the 36 percent pension income delivery to retirees today (table 1), it would reach 77 percent as the baby boomers retire and 84 percent in later years.

This highlights the fourth baby boomer challenge: the need for preservation of lump-sum distributions upon job change or retirement in order to meet retirement income goals.

It is important to note how important involvement by institutions like the government and employers can be. The data already provided indicate how important the mandatory system of Social Security and voluntary set asides of employer pensions have been in providing income to today's retirees. Table 6 shows participation in individual retirement accounts (IRAs) relative to employer pensions and 401(k) plans. In 1992, 8.1 percent of workers contributed to an IRA (6.3 percent of those without an employer plan). This compares to 43.7 percent of all workers who are in an employer plan, and 64.9 percent of those workers given the option of participation in a 401(k) plan.

This highlights the fifth challenge related to the baby boomers: finding ways to get them to save on a tax–effective basis when they are given the opportunity.

It is important to factor retiree medical expenses into consideration when thinking about the baby boomers. Chart 11 shows the degree to which retirees depend upon Medicare and, to a lesser extent, on employer provision. Retirees have acted on their own to purchase supplementation of Medicare where employers have not provided the benefit. Charts 12, 13, and 14 show that 45 percent of have access to retiree health insurance, with wide variation in what the employer will pay. Only 10 percent to 15 percent of baby boomers being promised full employer payment for Medigap policies.

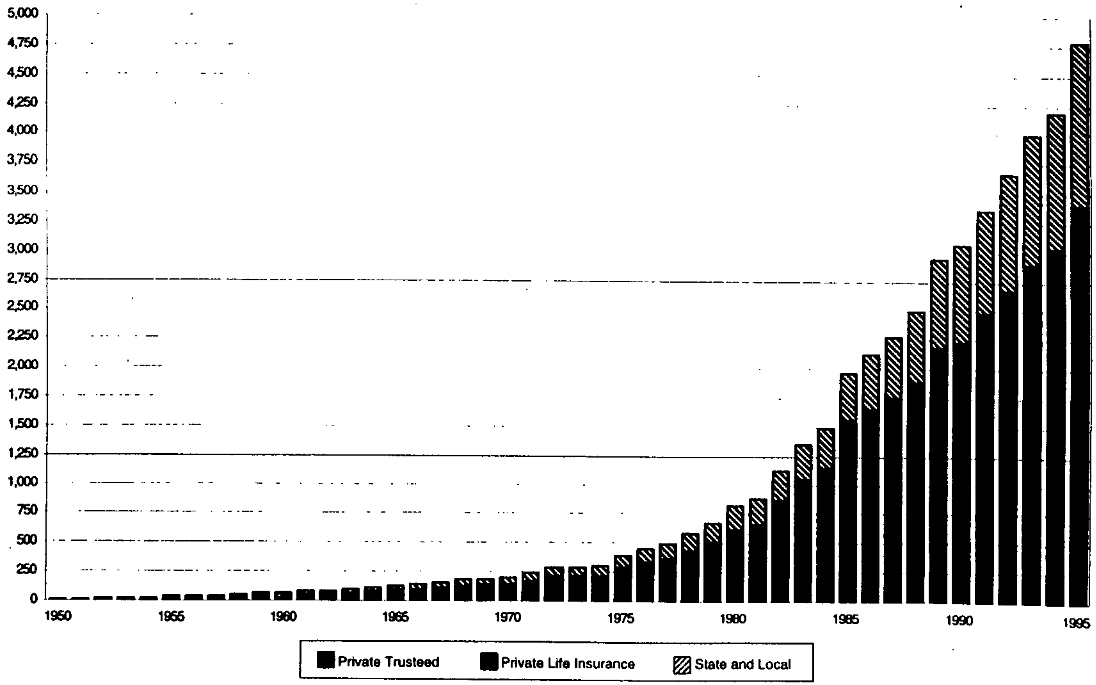
This highlights the sixth challenge related to the baby boomers: focusing on the implications of rising health care costs and increased life expectancy, and then saving enough to pay for health expenses in retirement at what is likely to be a far higher proportional cost than that faced by today's retirees.

Conclusion

I want to thank the Committee for the opportunity to testify today and invite you to call on EBRI and ASEC in the future. The baby boom generation is beginning to save, but only one-third have yet done an estimate of how much they need to save for retirement. Employers are doing more now than ever before to raise this number. Employers recognize that while this is a higher proportion than among today's retirees, it leaves much room for improvement. Workers, like retirees, underestimate how long they will live once retired, but they want to retire early. Education is focusing on this as well. This combination of factors tells us that baby boomers are on a better savings path than today's retirees, and they have the tools and the opportunity to do even better. The primary challenge for employers and the government is to provide individuals the education to assure that they become planners, savers, and investors, as we have moved from a system focused primarily on the few who work for one employer for a full career to one focused on all workers.

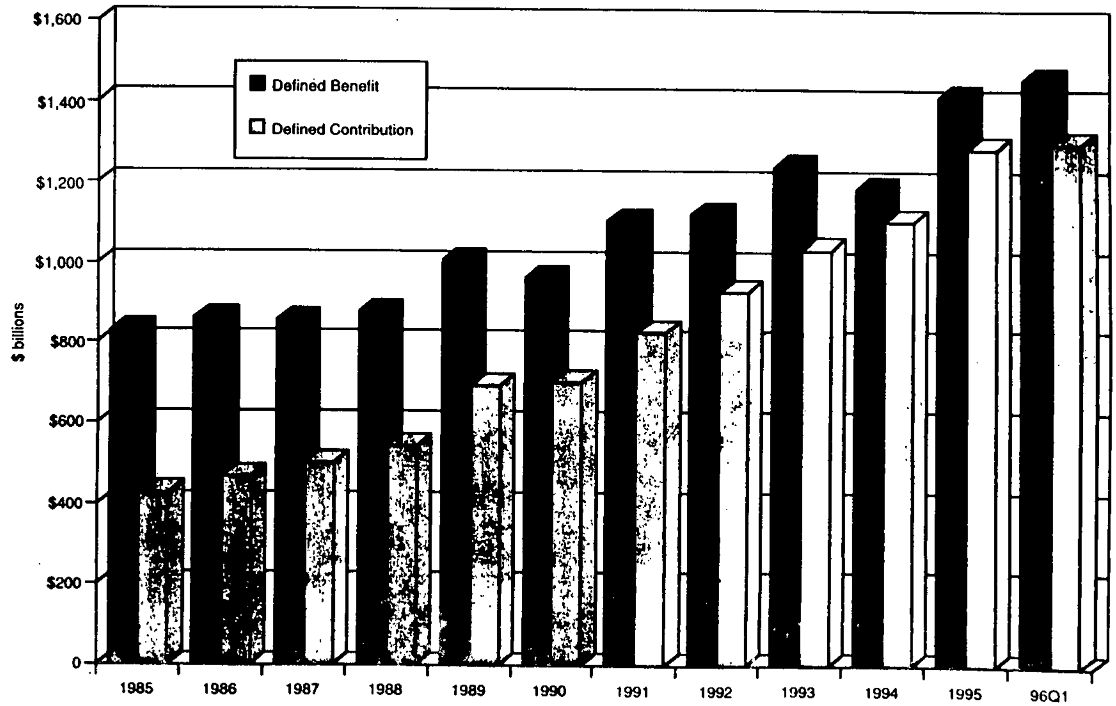
Chart 1

Annual Financial Asset Structure (1950–1995): Total Financial Assets and Rate of Growth



Source: Employee Benefit Research Institute, *Quarterly Pension Investment Report*, 1st Quarter, 1996

Chart 2
Private Trusteed Pension Assets, by Type, 1985–96Q1



Source: Employee Benefit Research Institute, *Quarterly Pension Investment Report*, 1st Quarter, 1996

Table 1:
Private Plan Financial Trends[a]

Summary of Private Sector Qualified Defined Benefit and Defined Contribution Plan Trends, Selected Years 1975–1993

($ billions)	1975	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
Assets[b,c]	$260	$564	$629	$789	$923	$1,045	$1,253	$1,383	$1,402	$1,504	$1,676	$1,674	$1,936	$2,094	$2,316
Defined benefit	186	401	444	553	642	701	826	895	877	912	988	962	1,102	1,147	1,248
Defined contribution	74	162	185	236	281	344	427	488	525	592	688	712	834	947	1,068
Defined contribution as percentage of total	28%	29%	29%	30%	30%	33%	34%	35%	37%	39%	41%	43%	43%	45%	46%
Contributions[b,d]	$37	$66	$75	$80	$82	$91	$95	$92	$92	$91	$98	$99	$111	$129	$154
Defined benefit	24	43	47	48	46	47	42	33	30	26	25	23	30	35	52
Defined contribution	13	24	28	31	36	43	53	58	62	65	73	76	81	94	102
Defined contribution as percentage of total	35%	36%	38%	39%	44%	48%	56%	64%	68%	71%	75%	77%	73%	73%	66%
Benefit Payments[b,e]	$19	$35	$45	$55	$65	$79	$102	$130	$122	$119	$132	$129	$136	$152	$156
Defined benefit	13	22	27	34	37	47	54	68	66	60	67	66	72	78	79
Defined contribution	6	13	17	21	28	33	47	63	56	58	65	63	64	75	77
Defined contribution as percentage of total	32%	37%	39%	39%	43%	41%	47%	48%	46%	49%	49%	49%	47%	49%	49%

Source: Employee Benefit Research Institute tabulations based on U.S. Department of Labor, Pension and Welfare Benefits Administration, *Private Pension Plan Bulletin* (Winter 1997).

[a]Excludes single participant plans.

[b]Due to rounding, sums of individual items may not equal totals.

[c]Excludes funds held by life insurance companies under allocated group contracts for payment of reitrement benefits. These funds make up roughly 10 to 15 percent of total private pension plan assets.

[d]Includes both employer and employee contributions.

[e]Includes both benefits paid directly from trust and premium payments made by plans to insurance carriers. Excludes benefits paid directly by insurance carriers.

Table 2: Private Pension Plans and Participants

Summary of Private-Sector Qualified Defined Benefit and Defined Contribution Plans and Participants, Selected Years 1975–1993

	1975	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
(thousands)															
Total Plans[a,b]	311	489	546	594	603	604	632	718	733	730	731	712	699	708	702
Defined benefit[a]	103	148	167	175	175	168	170	173	163	146	132	113	102	89	84
Defined contribution[a]	208	341	378	419	428	436	462	545	570	584	599	599	598	620	619
Defined contribution as percentage of total	67%	70%	69%	71%	71%	72%	73%	76%	78%	80%	82%	84%	85%	87%	88%
(millions)															
Total Participants[b,c]	45	58	61	63	69	74	75	77	78	78	76	77	78	82	84
Defined benefit[c]	33	38	39	39	40	41	40	40	40	41	40	39	39	40	40
Defined contribution[c]	12	20	22	25	29	33	35	37	38	37	36	38	39	42	44
Defined contribution as percentage of total	26%	34%	36%	39%	42%	45%	47%	48%	49%	48%	48%	50%	50%	52%	52%
Active Participants	31	36	37	37	39	40	40	41	42	42	43	42	43	45	45
Primary plan is defined benefit[d]	27	30	30	29	30	30	29	29	28	28	27	26	26	25	25
Primary plan is defined contribution[d]	4	6	7	8	9	10	12	13	13	14	15	16	17	19	19
Defined Contrbution as percentage of total	13%	16%	19%	22%	23%	25%	30%	32%	31%	33%	35%	38%	40%	42%	42%

Source: Employee Benefit Research Institute tabulations based on U.S. Department of Labor, Pension and Welfare Benefits Administration, *Private Pension Plan Bulletin* (Winter 1997).

[a]Excludes single participant plans.

[b]Due to rounding, sums of individual items may not equal totals.

[c]Includes active, retired, and separated vested participants not yet in pay status. Not adjusted for double counting of individuals participating in more than one plan.

[d]For workers covered under both a defined benefit and a defined contribution plan, the defined benefit plan is designated as the primary plan unless the plan name indicates it provides supplemental or past service benefits.

Chart 3

Traditional Defined Benefit versus Defined Contribution

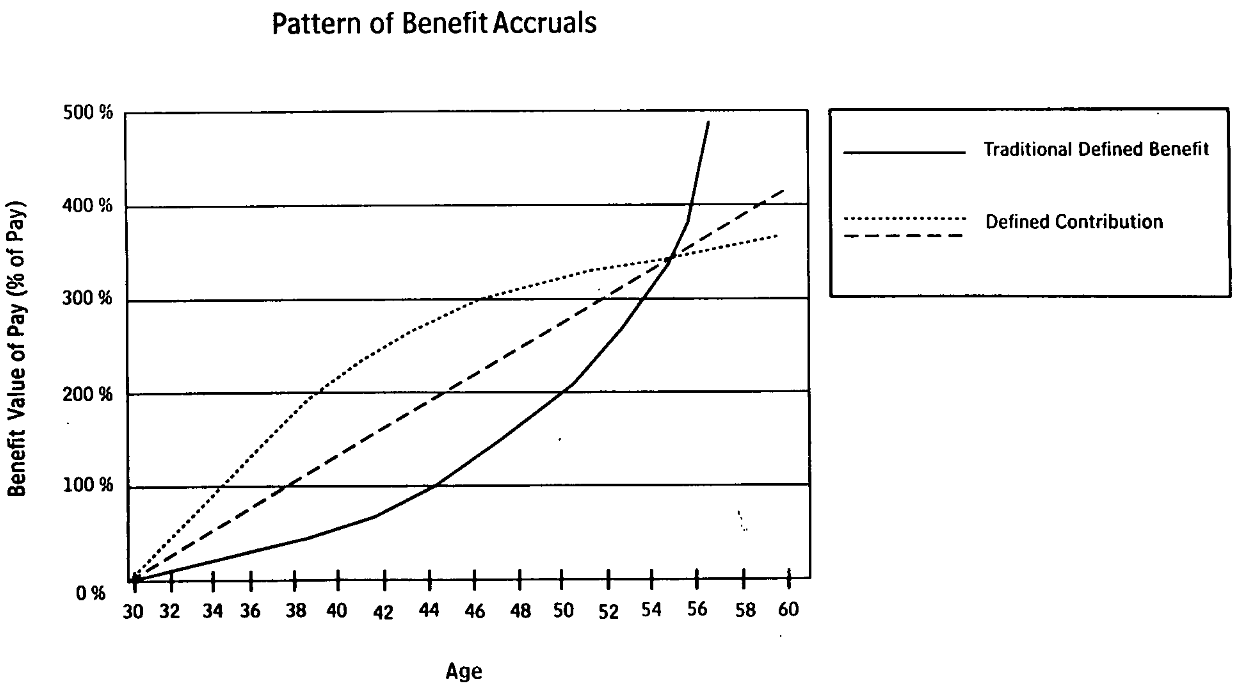
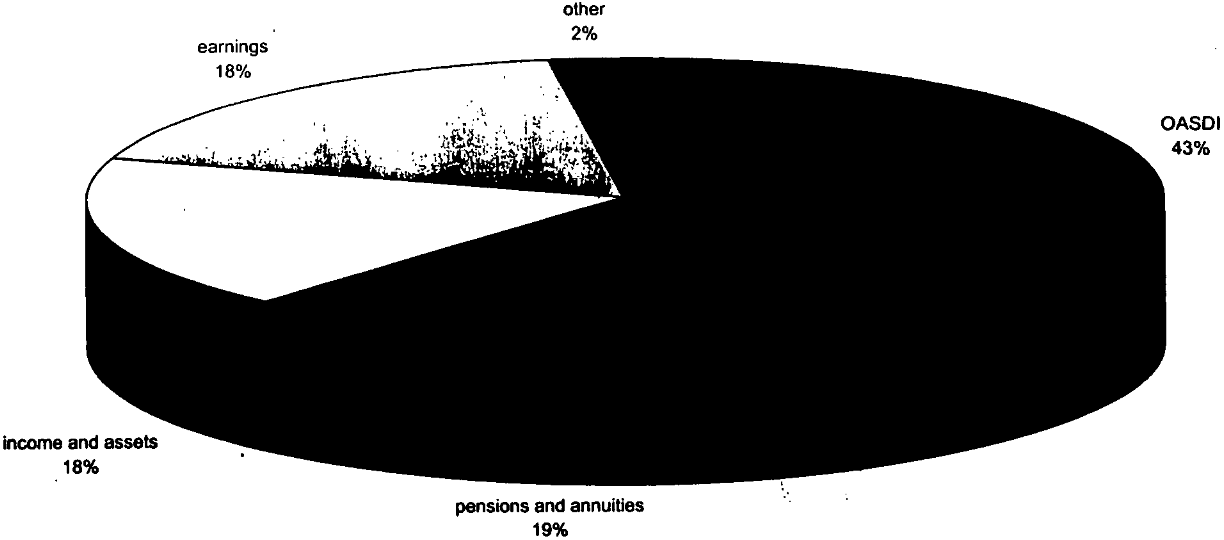
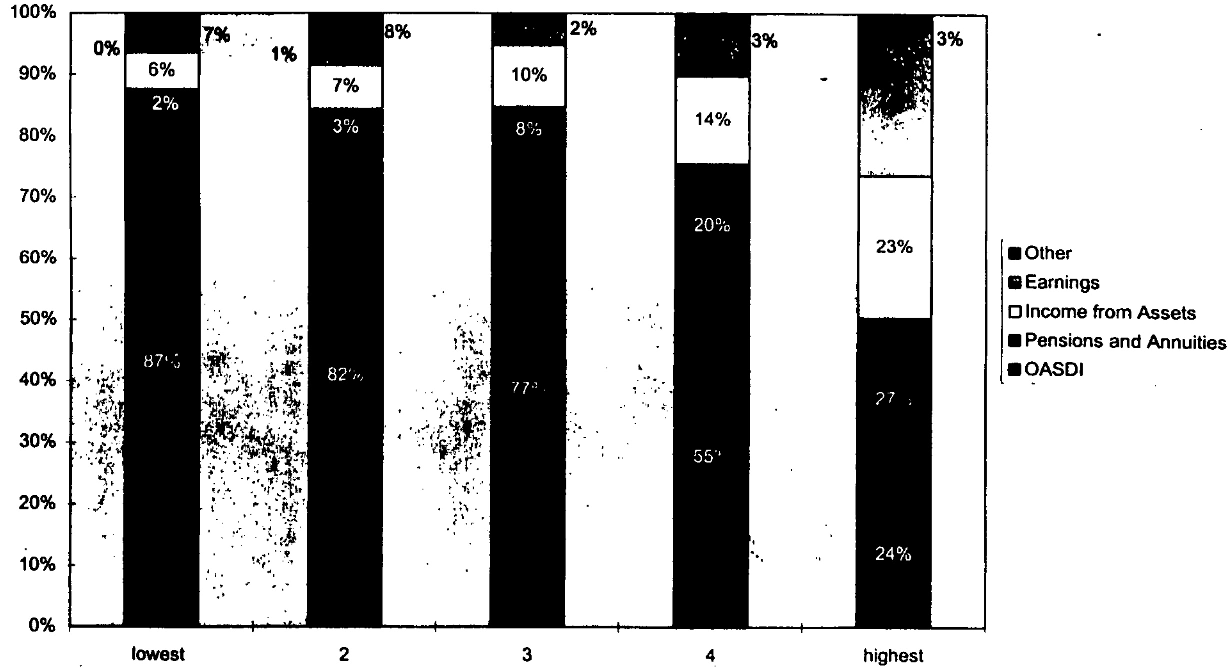


Chart 4:
Sources of Income, Population Age 65 and Over, 1995



Source: Employee Benefit Research Institute estimates of the March 1996 Current Population Survey.

Chart 5:
Sources of Income, Population Aged 65 and Over, by Income Quintiles, 1995



Source: Employee Benefit Research Institute tabulations of the March 1996 Current Population Survey.

Table 3:
Sources of Income of the Older Population

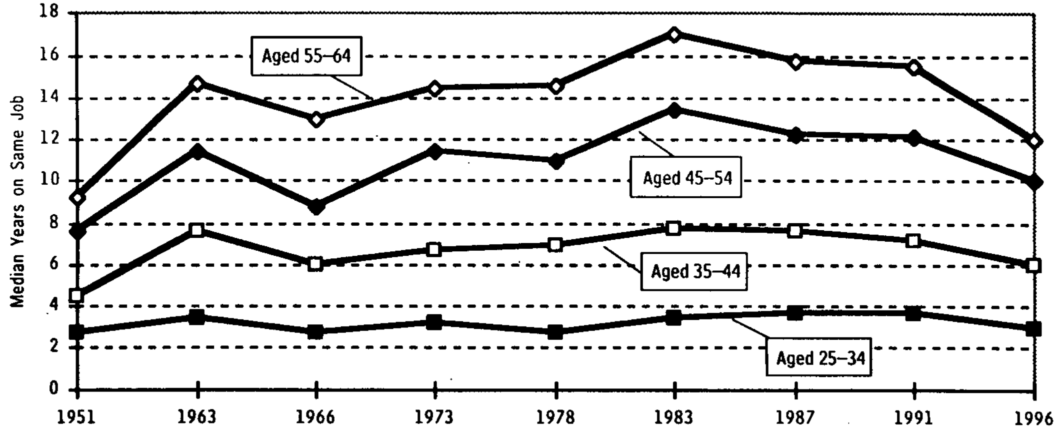
Sources of Income of the U.S. Population Aged 55 and Over, Percentage Distribution of Population and Income by Income Source, Mean Income, and Median Income, by Age, 1995

	Total Aged 55+				Total Aged 65+			
	Percentage distribution of income by source	Percentage receiving income by source	Median[a] income	Mean income	Percentage distribution of income by source	Percentage receiving income by source	Median[a] income	Mean income
Total	100%	100.0%	$13,453	$21,091	100.0%	100.0%	$11,553	$17,128
Earnings	46	36	18,000	9,691	18	16	9,000	3,044
Retirement Income	37	72	8,864	7,876	61	96	8,917	10,509
OASDI[b]	23	66	7,417	4,932	42	93	7,627	7,237
Private pensions[c]	7	18	4,945	1,382	9	24	4,428	1,539
former worker	6	16	5,160	1,292	8	21	4,593	1,425
survivor	d	2	3,180	90	1	3	3,000	114
Public pensions[c]	7	10	11,916	1,409	9	12	10,176	1,556
former worker	6	9	12,108	1,303	8	10	10,488	1,414
survivor	d	1	7,560	105	1	2	7,560	142
IRA/Keogh/401(k)	d	1	5,297	63	d	1	4,000	66
Annuities[e]	d	d	4,498	45	d	1	3,588	55
Other retirement	d	1	5,437	45	d	1	5,960	58
Inome from Assets	14	69	1,000	2,891	18	69	1,216	3,057
Interest	9	7	577	1,847	12	67	726	2,039
Dividends	3	21	902	630	4	20	1,000	666
Rent, royalties, estates and trusts	2	12	1,015	413	2	11	1,200	352
Financial Assistance[fg]	d	d	2,500	25	d	d	2,350	12
Nonpension Survivors Benefits	1	1	5,124	108	1	1	5,000	116
Disability	1	1	5,904	117	d	1	5,496	72
Unemployment compensation, Workers Compensation, and Veterans Benefits	1	5	3,000	227	1	4	3,119	228
Public Assistance/SSI[h]	d	1	1,764	14	d	d	919	4
Other[i]	d	2	1,998	91	d	1	2,290	84

Source: Employee Benefit Research Institute tabulations of the March 1996 Current Population Survey.
Footnotes: See the EBRI Databook on Employee Benefits (Washington, DC: Employee Benefit Research Institute, 1995).

Chart 6

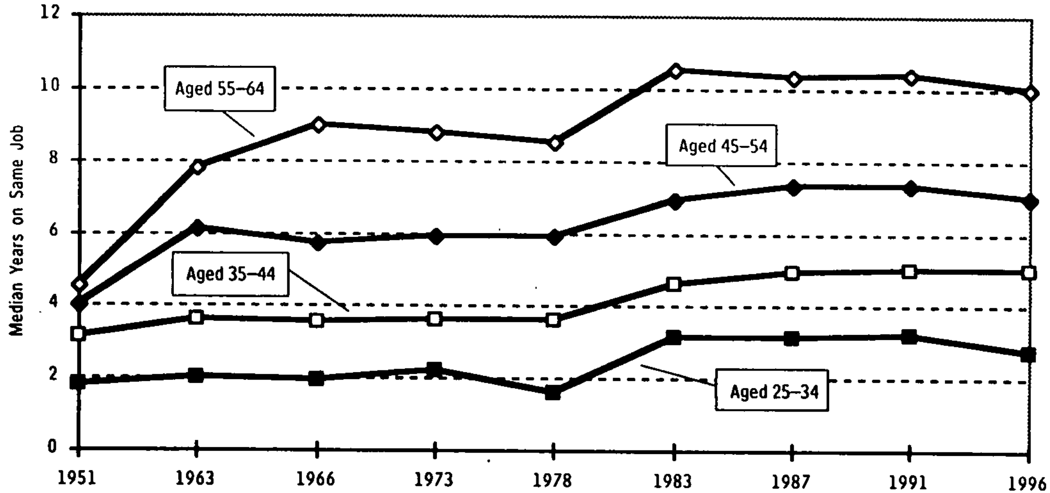
PRIME AGED MALE JOB TENURE TRENDS, BY WORKER AGE, 1951-1996



Source: Employee Benefit Research Institute compilation: (for years 1951, 1963, 1966, 1973, and 1978), U.S. Department of Labor, Bureau of Labor Statistics, *Monthly Labor Review* (September 1952, October 1963, January 1967, December 1974, and December 1979); (for 1987), unpublished data from U.S. Department of Labor, Bureau of Labor Statistics, Division of Labor Force Statistics; (for years 1983 and 1991), U.S. Department of Labor, Bureau of Labor Statistics, "Employee Tenure and Occupational Mobility in the Early 1990s," News release USDL 92-386, 26 June 1992; (for 1996), EBRI tabulations of the February 1996 Current Population Survey research file (final, edited public use tape will be available in late January).

Chart 7

PRIME AGED FEMALE JOB TENURE TRENDS, BY WORKER AGE, 1951-1996



Source: Employee Benefit Research Institute compilation: (for years 1951, 1963, 1966, 1973, and 1978), U.S. Department of Labor, Bureau of Labor Statistics, *Monthly Labor Review* (September 1952, October 1963, January 1967, December 1974, and December 1979); (for 1987), unpublished data from U.S. Department of Labor, Bureau of Labor Statistics, Division of Labor Force Statistics; (for years 1983 and 1991), U.S. Department of Labor, Bureau of Labor Statistics, "Employee Tenure and Occupational Mobility in the Early 1990s," News release USDL 92-386, 26 June 1992; (for 1996), EBRI tabulations of the February 1996 Current Population Survey research file (final, edited public use tape will be available in late January).

Table 4

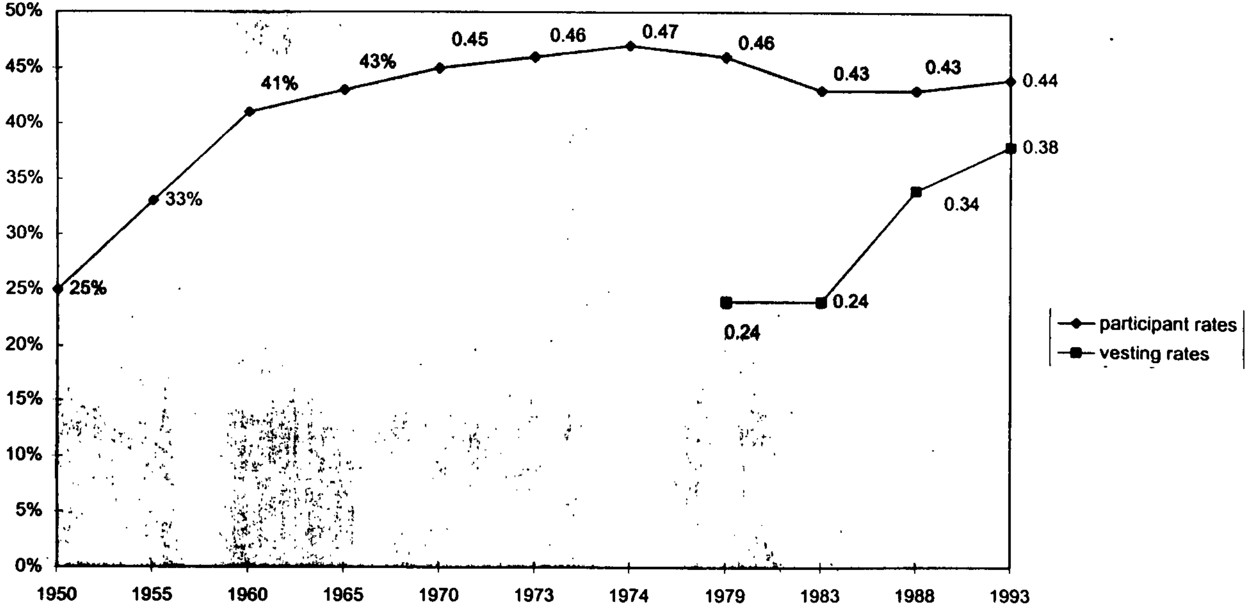
Percentage Distribution of Workers by Years of Tenure at Current Job, by Age, 1996

Age	Less than 1 year	1 to 4 years	5 to 9 years	10 to 14 years	15 or more years	20 or more years	30 or more years
25–34	25.7	40.5	24.3	8.1	1.3	a	0.0
35–44	14.7	29.0	24.5	14.6	17.2	6.0	a
45–54	11.0	21.7	19.7	14.2	33.5	22.1	3.7
55–64	8.2	19.5	17.5	12.6	42.2	30.5	12.4

Source: Employee Benefit Research Institute (EBRI) tabulations of the February 1996 Current Population Survey research file (final, edited public use tape will be available in late January).

[a]Less than 0.5 percent.

Chart 8:
Trends in Retirement Plan Sponsorship and Vesting Among Civilian Workers, Aged 16 and Over, Selected Years, 1950-1993



Source: Employee Benefit Research Institute estimates of the May 1979, 1983, 1988, and April 1994 Current Population Survey employee benefits issue; and Alfred M. Skolnik, "private Pension Plans, 1950-1974" and Martha Remy Yohalem, "Employee Benefit Plans," *Social Security Bulletin*, June 1976 and November 1977.

Chart 9
Distribution of Pension Payments, 1990

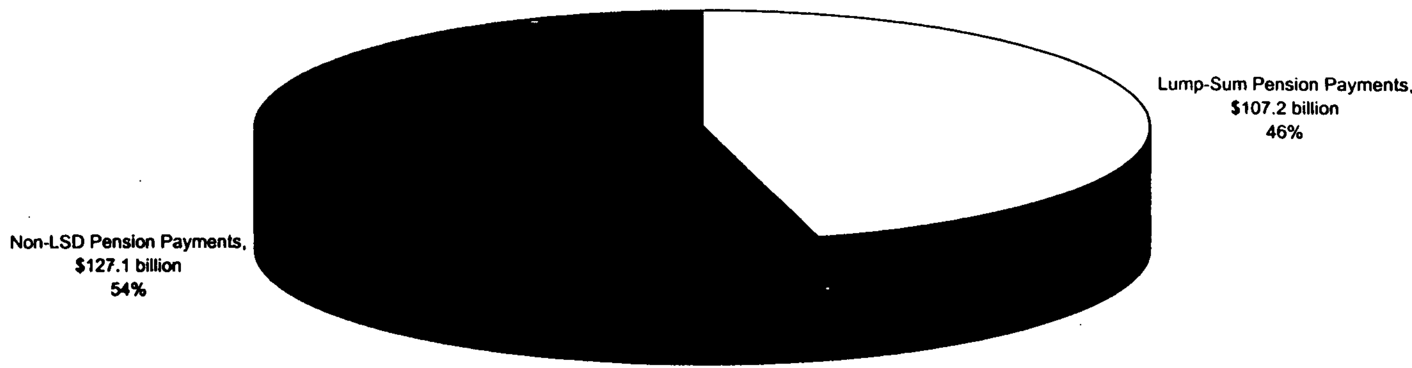


Table 5:
Projected Pension Recipiency with Virtually all Lump-Sum Distributions Rolled Over and Annuitized

Percentage of Aged Units[a] with Retirement Income from Various Sources, 2018 and 2030

Income Source	2018 Aged 65 and Over	2030 Aged 66–75	2030 Aged 76–84
All Retiree Families			
Social Security	98%	99%	97%
Employment-based pension	77	81	84
Earnings	20	8	26
Supplemental Security Income	3	1	1
Married Couples			
Social Security	98	b	b
Employment-based pension	88	b	b
Earnings	34	b	b
Supplemental Security Income	c	b	b
Single Individual			
Social Security	97	b	b
Employment-based pension	70	b	b
Earnings	10	b	b
Supplemental Security Income	4	b	b

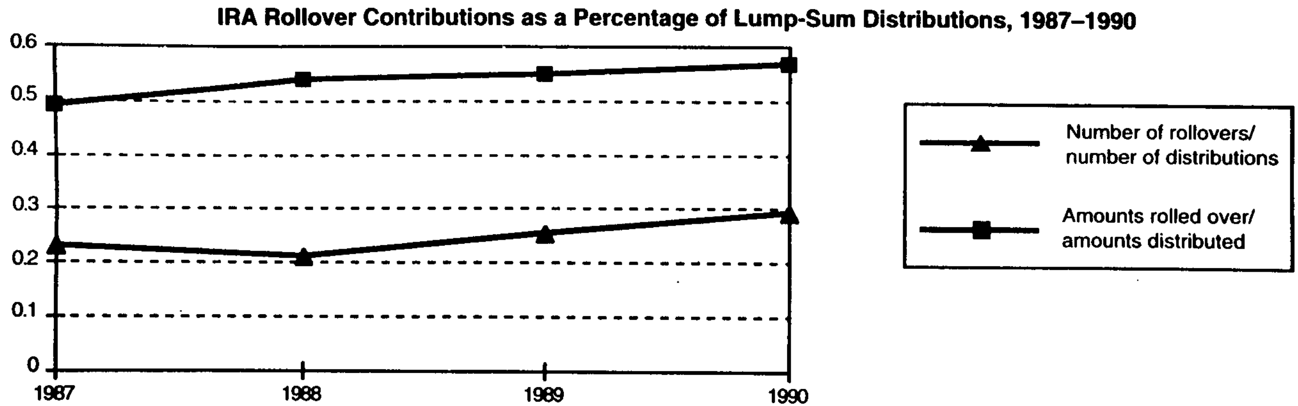
Source: Employee Benefit Research Institute tabulations of the Pension and Retirement Income Simulation Model; Advisory Council on Social Security, *Future Financial Resources of the Elderly: A View of Pensions, Savings, Social Security, and Earnings in the 21st Century* (Washington, DC: Advisory Council on Social Security, 1991) (data for 2018); and Lewin-VHI, Inc., *Aging Baby Boomers: How Secure Is Their Economic Future?* (Washington, DC: American Association of Retired Persons, 1994) (data for 2030).

[a]Married couples living together where at least one spouse is aged 55 or over and nonmarried persons aged 55 and over.

[b]Data not available.

[c]Less than 0.5 percent.

CHART 10



Source: Employee Benefit Research Institute (EBRI)/Internal Revenue Service (IRS) tabulations of IRS Forms 1099-R, Statement for Recipients of Total Distributions From Profit-Sharing, Retirement Plans, Individual Retirement Arrangements, Insurance Contracts, Etc., 1987–90; EBRI/IRS tabulations of IRS Forms 5498, Individual Retirement Arrangement Information, 1987-90.

Table 6: Rates of Pension Participation, 401(k) Participation, and IRA Participation, Civilian Workers Aged 16 and Over, within Earnings Levels, May 1983, May 1988, and April 1993

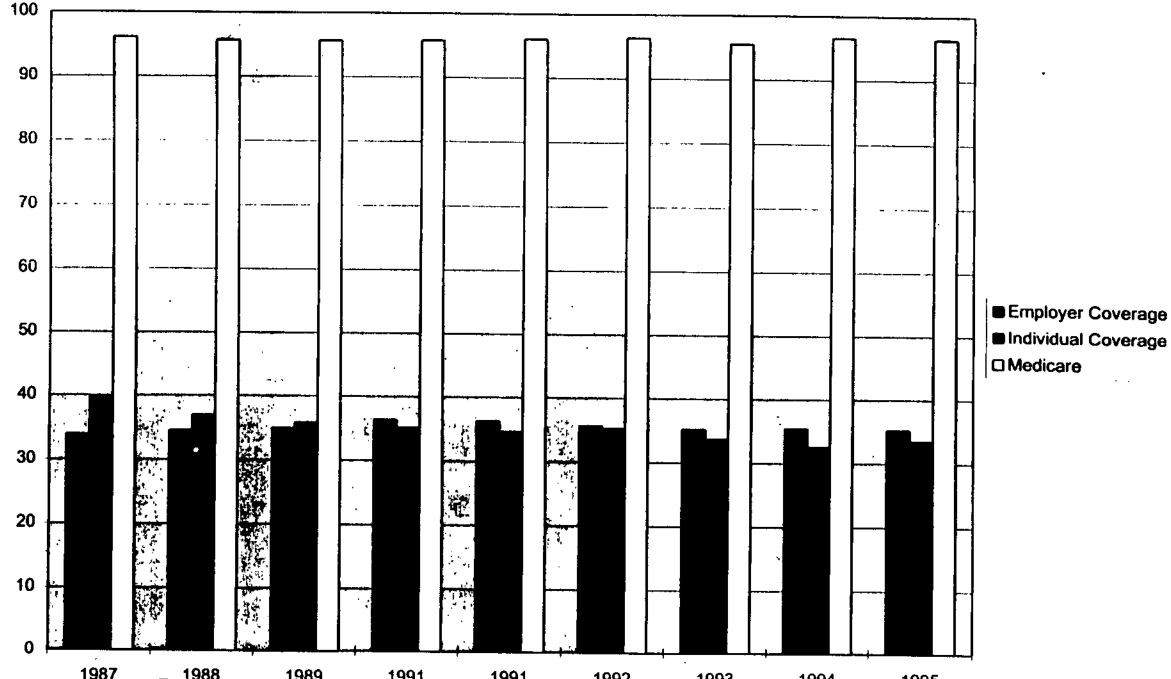
Real Annual Earnings	Number of Workers (thousands)			Pension Participation (Thousands)			401(k) Participation Percentage of Workers Offered a Plan			IRA Participation (Percentage)		
	1983	1988	1993	1983	1988	1993	1983	1988	1993	1982	1987	1992
All Workers	98,964	113,720	117,874	42.0%	42.0%	43.7%	38.3%	56.9%	64.9%	16.9%	12.5%	8.1%
$1–$4,999	10,294	10,.28	7,540	4.9	4.2	2.9	a	22.2	19.9	6.8	4.6	2.4
$5,000–$9,999	13,257	13,502	10,691	16.9	17.2	12.7	a	32.9	34.0	8.0	7.1	3.7
$10,000–$14,999	16,259	16,966	15,409	37.0	38.7	28.8	28.2	41.9	44.5	10.4	7.8	4.6
$15,000–$19,999	14,052	14,700	14,501	55.0	54.0	44.6	32.1	50.5	54.5	13.4	11.3	5.4
$20,000–$24,999	11,993	12,417	12,247	64.7	63.4	60.1	34.7	56.7	60.8	19.1	13.3	7.5
$25,000–$29,999	6,663	8,875	9,817	72.8	71.5	64.2	40.0	58.6	66.8	21.0	17.3	8.2
$30,000–$49,999	11,600	14,377	19,977	73.5	75.4	75.0	47.6	67.0	72.3	32.8	18.0	10.6
$50,000+	2,948	4,133	8,639	73.3	76.9	79.2	59.3	79.8	83.2	55.8	22.9	14.5

Source: Employee Benefit Research Institute estimates of the April 1993 Current Population Survey.

[a]Sample too small to be statistically reliable.

Chart 11

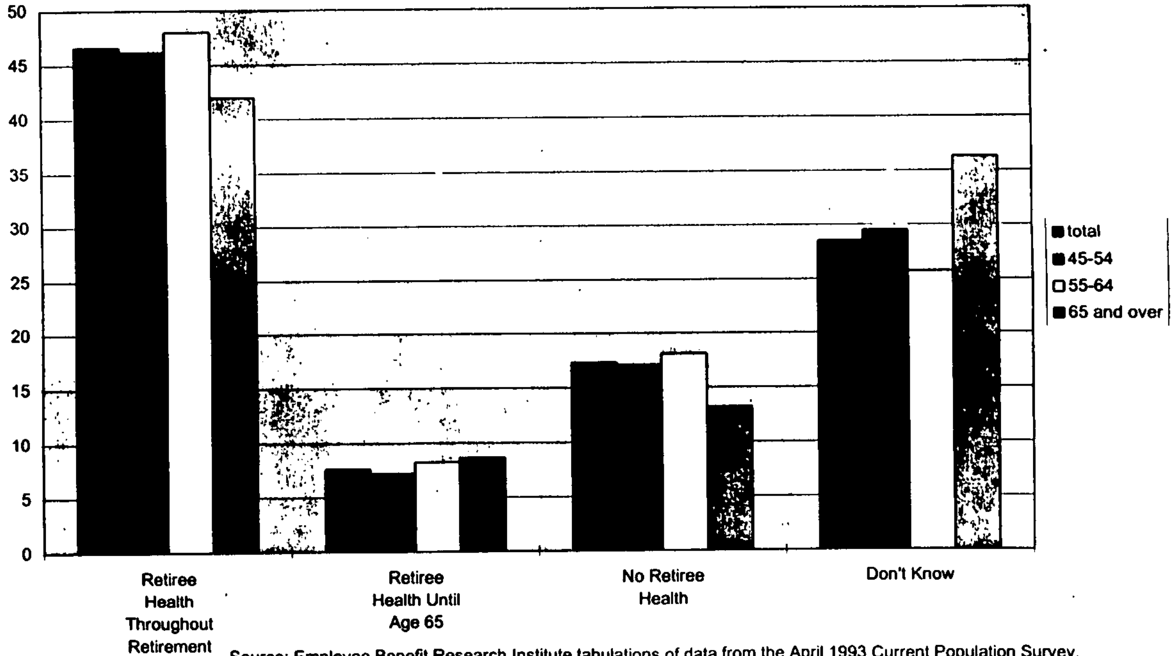
Elderly Americans with Selected Sources of Health Insurance Coverage, 1987-1995



Source: Employee Benefit Research Institute tabulations of data from the March 1988-1996 Current Population Surveys.

Chart 12

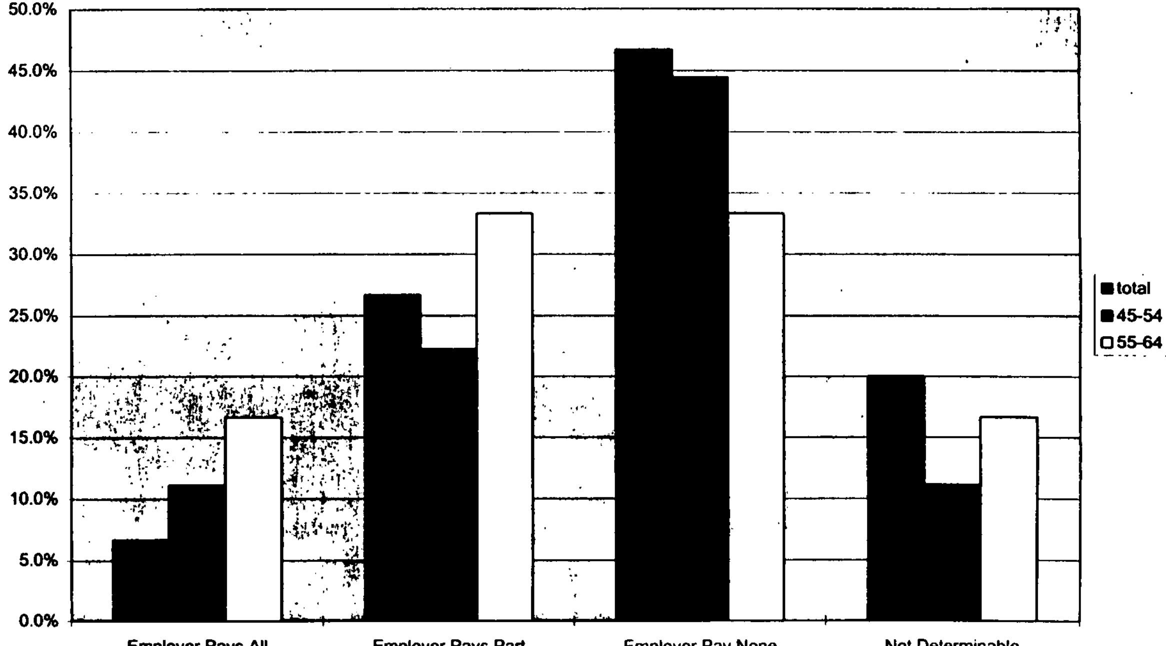
Provision of Employment-based Retiree Health Insurance Among Workers Aged 45 and Over, by Age, 1993



Source: Employee Benefit Research Institute tabulations of data from the April 1993 Current Population Survey.

Chart 13

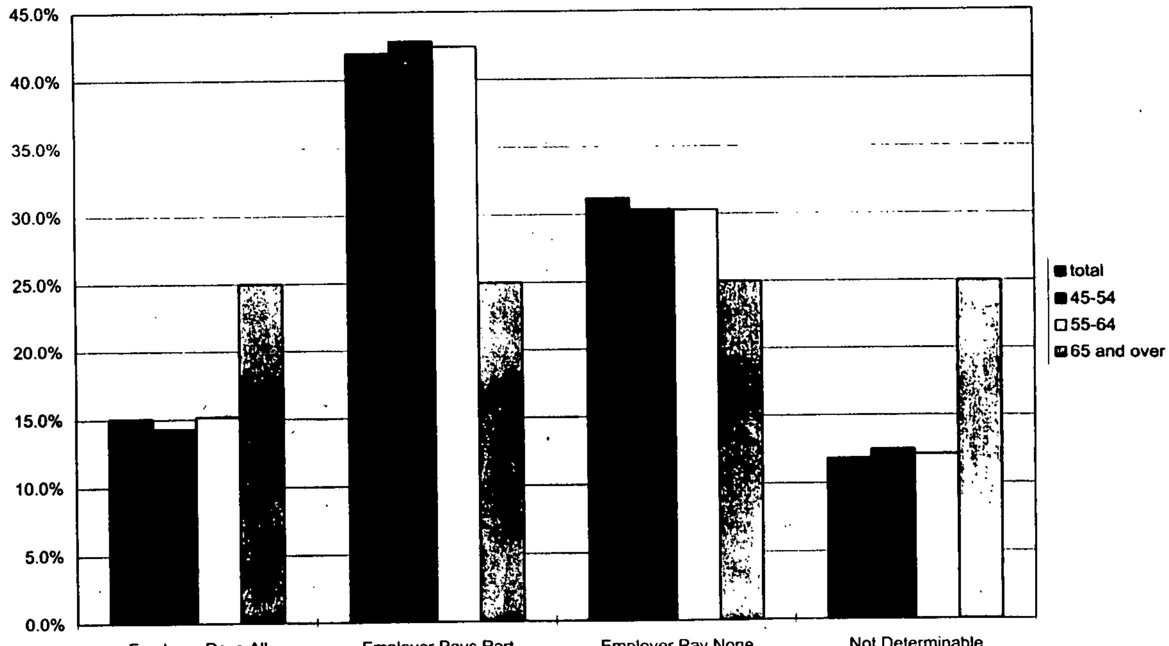
Employer Cost Sharing Among Health Plan Participants with Retiree Health Available Until Age 65, by Age, 1993



Source: Employee Benefit Research Institute tabulations of data from the April 1993 Current Population Survey.

Chart 14

Employer Cost Sharing Among Health Plan Participants with Retiree Health Available Throughout Retirement, by Age, 1993



Source: Employee Benefit Research Institute tabulations of data from the April 1993 Current Population Survey

The CHAIRMAN. Thank you very much. I will ask to take 5 minutes for questions, then Senator Breaux, it's my 'druthers to run the committee this way. If you don't like it, I hope you'll tell my staff. Because if it's a choice between seniority or first arrival, I like to use first arrival. So I would call upon alternatively after that, Ms. Moseley-Braun, Mr. Kohl, Senator Reid of Nevada, Feingold, and Reed of Rhode Island on the Democratic side, and on this side, the way you're sitting here is the way you arrived.

So if that's OK with you, I'd like to do that. By the way, it's also my point in this committee to accommodate people. Because there's always conflicts. So if you will let me know of conflicts, you need to participate out of turn and there's no objection from other members, I would like to accommodate you throughout the course of this year in regard to that. I hope you'll make that known to me or my staff, because we can interrupt other members so you can do your business if you have to go.

I've got four questions I'd like to ask all at once, because they're kind of related, get it out on the table. They're both basically for Dr. Wilensky and Mr. Walker.

What's the best way to put the spending in Medicare and later, Social Security, in the larger economic context so that people can clearly understand the significance of these funding shortfalls? Mr. Salisbury indicated, well, you folks understand it, but this is a major problem out there at the grass roots, that they don't understand it. Would it be fair to say that the spending increases in this program are outstripping the growth in the economy, and that therefore, the program is growing faster than our capacity to finance them?

Do we run the risk that continued rapid growth of Government spending in Medicare and after the Baby Boomers retire, of course, Social Security will drastically exceed revenues and therefore crowd out private savings and investment? Finally, if this is a fact and if this continues, is there a risk that the economy will grow a lot more slowly than it otherwise would, making it extremely difficult to provide health and income security for the retired Baby Boomers?

Ms. WILENSKY. Those are very good questions, very large questions. Let me try to answer them quickly.

The first is that I agree with you and therefore commend you on this hearing, it is my impression that the American public does not understand at all the magnitude of the problems they are facing, that we are facing, with regard to Medicare. There has been enormous focus on what it takes to have a balanced budget in 2002. A lot of discussion about what $100 billion of savings will or will not do in order to reach that balanced budget.

There has been some discussion about getting the trust fund out another decade. It hinges critically on shuffling monies around, as I indicated. The importance of moving $80 billion out of home care, which is the single fastest growing component of the trust fund, into Part B without the normal Part B restraints, is a critical part of the Administration's proposal to get another decade in the Trust Fund.

So one thing that this committee can help to do, and is doing today, is to try in every way as a committee, and you as individual members, to discuss with the public the magnitude of the problem we are facing to get to the period when the Baby Boomers retire, and through the 20 year period of the Baby Boomer retirement period. I think it can be done. But we need to take the focus off of 2002, and on to getting to 2010 and then from 2010 to 2030.

The second issue has to do with spending increases. There is at least some good news here. In Medicare, we are seeing spending growing at 8.5 percent per year, down slightly from what we had seen it earlier in the decade, when it had been between 9 and 11 percent per year. We are also seeing, and have been seeing since the early 1990's, spending rates growing in the private sector at much slower rates.

Now, to be honest, in the 1980's, Medicare had a much better record in terms of slowing the spending growth. But it is not surprising that Medicare has a spending problem. There are perverse incentives, both regarding the elderly and the people who provide services to the elderly.

We need to make a decision as a country, either we are going to use direct controls in a serious way that will stop spending through direct control mechanisms, or we need to change the basic incentives that underlie the Medicare Program. My own preference is to make Medical more like the Federal Employees Health Care Plan. I think that fundamentally is a much better way to run a program. But the Congress needs to decide which way to go.

Therefore, to answer your question about spending increases, we are seeing much faster rates of spending in Medicare, double what we are seeing in terms of GDP growth, much faster than what we are seeing in other parts of the Federal budget. Ultimately, if we don't do something to change Medicare, we would have to have very high rates of payroll taxes to support the current Medicare and Social Security Programs, much higher than I believe this country is likely to withstand or support. Therefore, it will require some very serious decisions on the part of the Congress about what else to do.

The CHAIRMAN. Mr. Walker.

Mr. WALKER. Mr. Chairman, most of the American public really doesn't understand the nature, extent and magnitude of our problem. There's been a lot of misinformation provided to them. There's also been a lot of disinformation provided to them. This is a very complex topic. We need to engage in a concerted, bipartisan, public-private partnership to get the message out. Too much of the focus on both Social Security and Medicare, Medicare in particular, has been myopic, short term oriented.

Two thousand two, Congress and the administration want to balance the Federal budget by 2002. But quite frankly, that's easy lifting compared to the later years beyond 2002. I know how difficult that is. It's also easy lifting compared to the challenge we face in Medicare. Two thousand two is a decade before the first Baby Boomer retires!

Our real problem begins when the Baby Boomers retire. The projected deficits in the Medicare HI Program alone per the 1996 report in the year 2025 are $750 billion. That doesn't count SMI. So double it to $1.5 trillion. Compare that to OASDI, where it's only $457 billion, almost four times larger.

In summary, I think if you look at expectation gaps, while I mentioned that I think that we can have a win-win scenario for Social Security, because I think people are over-discounting Social Security, we can restore the financial integrity of that program, we can strengthen it, we can restore public confidence.

On Medicare, however, I am very concerned that the expectation gap is exactly the opposite. People are saying we really don't have that big a problem, or we can solve our problem is we just get to 2002. Two thousand two is not even a down payment. We have to engage in a massive public education campaign. Because this country has made unsustainable promises in Medicare.

We have to fundamentally reassess the division of responsibility for government, employers and individuals in health care. We have to fundamentally reassess our tax incentives. We have to increase individual awareness. We have to also enhance accountability with regard to health care, and if we don't, Mr. Chairman and members of the committee, that the entire Federal budget will be consumed with entitlement and interest payments by early in the next millennium, the entire Federal budget.

History shows that there's a practical limit to the consolidated tax burden that Americans will tolerate. It's around 19 to 21 percent of the GDP. So you don't have as much elasticity on the tax side. We've got to restructure Medicare in a timely, fair, and comprehensive manner.

The CHAIRMAN. Senator Breaux.

Senator BREAUX. I thank the panel as well.

I would remind all of our colleagues, the last time we made major Medicare reform legislation in 1988, we passed the Medicare Catastrophic Coverage Reform Bill. It passed by overwhelming margins of Democratic votes and overwhelming margins of Republican votes. President Reagan had this terrific signing ceremony down at the White House, and the next year, Congress repealed the whole damned thing. [Laughter.]

Basically seniors said, we don't want to pay more money for more benefits. We ran and hid, and nothing happened.

What would be the effect, David, of a CPI adjustment patterned after the recommendation of the Boskin Commission on the Social Security Commission?

Mr. WALKER. This is a very important question, Senator. I think there's a lot of misinformation on this issue as well.

Clearly, to the extent you end up adjusting the CPI downward, that's going to reduce expenditures to a number of Federal programs, including the Social Security Program. However, some of the projections I've seen as to the effect it would have are very misleading. Let me tell you why.

The trustees assume that over the next 75 years that inflation is going to be 4 percent, ultimate inflation, right or wrong, that's what they assume. They also assume that real wage growth is going to be 1 percent, and therefore wages will go up by 5 percent a year when they're projecting revenues for this program.

So what I have seen done is where people have said, gee, let's assume that cost of living is overstated by 1.1 percent. That means the benefit payments will only go up 2.9 percent. But they've assumed that wages are still going to go up 5 percent a year. Therefore, assuming a 2.1 percent real wage growth.

That's just not reality. That is not going to happen. As a consultant, among other things, in compensation and benefit programs, clearly if the American public can be convinced that accurate inflation is lower than what we're told, that is going to have an effect on the willingness of employers to grant wage increases, and therefore I think you're not going to see a 5 percent growth in wages. You're going to see something less than 5 percent growth in wages.

So it will help. But it is no panacea, and it won't help nearly to the extent of some of the numbers that I've seen.

Ms. WILENSKY. Senator Breaux, it has almost no effect for Medicare. Because the Medicare economic index has been below what the consumer price index has been as the price component.

Senator BREAUX. There's no automatic adjustment on Medicare.

Ms. WILENSKY. There is no automatic adjustment.

Senator BREAUX. You suggested, Gail, on home health care, that there wasn't a lot of savings by transferring it from Part A to Part B. But an additional factor is that we're thinking about applying prospective payments to home health care, never before implemented. They say this would produce about $6 billion worth of savings. That's got to be positive.

Ms. WILENSKY. It is positive. I don't want to justify particularly the present split between Part A and Part B and the different funding streams. My concern is, as minimal as they have been, we have certain constraints built into Part B to try to reduce spending, that is having 25 percent of the total spending be paid by the senior as a premium and 20 percent as co-insurance.

I'm very concerned that a major component of spending, like $80 billion of home care, be placed in general revenue. I commend the notion of moving to prospective payment, for home care although what the administration is preparing is only moving in the direction of prospective payment. To remove the regular spending restraints of Part B before we have an adequate reform in place, is to set a precedent that the Congress will regret. So I'm just very concerned, although I agree that in this case, prospective payment is projected to make up for the spending you would otherwise incur.

Senator BREAUX. Well, I think it's very important, we already have prospective payments for doctors and prospective payments for hospitals, we should have prospective payments for home health care as well.

I asked the following questions yesterday to an organization and the response to each was no. I'd like to get you to comment on them with regard to suggestions on Medicare. Should we raise the eligibility age, which the AMA reports, from 65 to 67?

Ms. WILENSKY. I think that's a good idea.

Senator BREAUX. What about means testing premiums and deductibles to a beneficiary?

Ms. WILENSKY. I think that is also a good idea.

Senator BREAUX. Raising the payroll tax?

Ms. WILENSKY. I have concerns about both the equity of the tax and the effects on the economy, Senator. I do not believe that is a good idea.

Senator BREAUX. I like the concept, although we need to explore it more, of trying to figure out how we could tailor the Federal Employees Health Benefit Program to Medicare. We get 10 to 30 different options and we pay according to the program we pick. It brings about a great deal of competition whether you're in a PSO, an HMO, or a fee for service plan. That type of option that we have as Federal employees is not available to seniors. You've made a general comment you'd like to see us try to move in that direction. Could you maybe just give a quick comment on that?

Ms. WILENSKY. Yes, I will, and there's some additional information in my testimony, and I'd be glad to provide you with other information.

Those are mainly the reasons, as you have outlined. In addition, it allows seniors to receive good information. There is an annual enrollment process that you could allow people who enroll in different types of plans for the first time to have a 30, 60, or 90 day window to change their mind. That would be fine.

But it is a more regularized process. You get people good information. If there are choices, you want to help seniors know the implications of those choices. It is very difficult if you are a senior now to know what's out there, either in terms of supplemental plans or in terms of replacement plans for Medicare, like HMO's.

I believe that the notion of making more choices available, including PSO's, where the physicians and hospitals that are providing services already to your seniors could come together on a risk basis and promote a plan is an excellent idea, and should be pursued. The reason it is a fundamental change in the economic incentives is that the Government pays more or less a fixed contribution. If the plan costs more money, the senior puts in the difference.

The amount the Government pays could certainly be based on the cost of the Medicare benefit package. It doesn't have to be just a percentage increase over what is being spent in an earlier period. But the Government couldn't pay more if a person is in a more expensive plan. That is a fundamental change in philosophy from the current open-ended entitlement, and I believe would serve both the seniors as well as the country as a whole.

The CHAIRMAN. Senator Hagel.

Senator HAGEL. Thank you, Mr. Chairman. Thank you for my rapid seniority advancement this morning. I noted my distinguished colleague from Louisiana took note of that. [Laughter.]

Welcome. Nice to have all three of you. As you stated, it is as important a challenge as this country has as we go into the next century. I think all my colleagues and I agree with that, and we will reach out, have to reach out for assistance in finding ways to deal with this.

Mr. Walker, I'd like to start with you if I could. You laid out a number of general thoughts on where we are and what we must do generally to negotiate what's ahead. Could you share with the committee some of your thoughts on a number of the privatization plans that have been kicked around generally outlined for Social Security?

Mr. WALKER. As you know, Senator, there are an ever-increasing number of groups that are making recommendations on Social Security reform. The most notable is the 1994 to 1996 Social Security

Advisory Council, which is a statutorily required body, the Committee for Economic Development, which is a group of CEO's and other leaders, have also made recommendations, the Committee for Strategic and International Studies, which has Senator Breaux and I, and Dallas Salisbury are on, also has a commission looking into this issue.

In general, my view is this. When you combine policy and political considerations, I believe that when the dust settles that we're going to need to give very serious consideration to changing the structure of the current OASI system. I think we're going to need to make sure that we have a base defined benefit element. The whole program right now is a defined benefit type program. We're going to clearly need to maintain a base defined benefit element that is well financed and is sound beyond 75 years.

But we should consider having a supplemental, mandatory defined contribution, individual account element on top of that, we need to accomplish three basic objectives. One, assure the financial integrity of the defined benefit structure. Second, improve the rate of return on contributions in the Social Security Program, both employer and individual. Third, increase public understanding and support for the program.

We also need to increase national savings. Because one of the things I didn't touch on, because I didn't have time, was our national savings in this country has declined from about 12 percent plus the GDP in the 1960's to about 4 percent in the 1990's. The countries that we're competing with around the world, Germany, Japan, etc., have much higher rates. We're ultimately going to pay a price for that if we don't get savings up.

Senator HAGEL. Would you care to maybe take this a little further, and Mr. Salisbury, I know this is some of your area as well, and please join in. We are going to be dealing with in this Congress, I expect the next few Congresses, tax reform. It strikes to the core of what you're saying, and in Mr. Salisbury's earlier testimony, he talked about this. We must incentivize these savings and what you were saying about supplementing what Social Security does, it never was intended to be the sole source of retirement.

We do have an education problem. But if you would, and certainly Dr. Wilensky, if you'd like to join in, I'd like to get your thoughts on how we start doing that and how we start crafting it and moving it in that direction which I suspect at least the two of you agree with.

Mr. SALISBURY. I'm not sure I'd say I agree or disagree. But to the point of incentivizing, if one were to try and have savings replace income now being expected from Social Security, from 20 years of the research we have done, the only way you're going to accomplish that is with a mandated savings requirement of some sort. In our survey work you end up with only about a third today saying that they are able financially to save and it's got to be, if you will, a conscious decision by public policymakers that they essentially want to require individuals to spend less today in order that they have more to spend at some point in the future.

In the slides that are presented with my testimony, you'll see that a result of the system we have in place today, people face financial problems when they change jobs. They take the pension distribution at any age as a lump sum distribution. Nearly two-thirds of those individuals today immediately consume that lump sum distribution, regardless of age.

Now, the fact is, it's generally financial necessity: they become unemployed or they have a child, family medical emergency or something else. But there is a basic policy decision that the Congress has frankly not made as it relates to lump sum distributions: are they retirement income or simply capital accumulation. The same type of issue would have to be faced in a mandated program.

I think the crucial issue in any discussion of an individual account approach for Social Security ends up being the ability and willingness of the Congress to commit over the long term that that money will in fact only be available to individuals after they have in fact hit an age and retired. From a national policy perspective, as we've seen, that's going to be a real challenge for the Congress.

Because if somebody ends up with terminal cancer, or they end up with a child with major medical problems or with extended unemployment, and they have this personal account that they've been told is their property but they can't touch it as they're starving and being thrown out of their home and living in a homeless shelter, that creates the types of challenges for public policymakers that takes even those so-called defined contribution Social Security alternatives and again makes no panacea vis-a-vis delivering long term economic security.

Mr. WALKER. Quickly, Senator, with regard to tax reform, I think we need to look very hard at reforming our tax system to encourage additional savings in general, and retirement savings in particular. We also need to look at discouraging consumption.

Ironically, my understanding is that the No. 1 tax preference in the Internal Revenue Code, either this year or next year, will be health care. The employer gets a deduction, the individual has income exclusion, and there is a limited amount of tax-free buildup available. Well, we have a consumption problem with health care. It's ironic that we are providing tremendous tax incentives for health care.

Second, I think if you look at the 21st century in this area, you're going to see that between retirement income and health care programs, the Government is going to do less. It's going to have less money to be able to parcel out. Second, employers are going to be asked to do more. But the question is, will they be able to, given competitive conditions, would there be enough incentives and will there be enough regulatory relief to make that happen.

Third, individuals absolutely must do more to plan and save and invest for retirement.

Ms. WILENSKY. I'd like to respond if I may quickly. Although I have worked in health the last 20 years, my area of training and initial expertise is in Federal tax policy. It seems to me that it is not beyond the stretch of the imagination to say that we do not have a savings friendly tax environment at present. There are many things that could be done, including changes in capital gains, as both Republicans and Democrats have proposed. There is also, of course, the adoption in part or in whole the value added or consumption tax in place of portions of income tax, which would have a major impact on incentives toward consumption and savings.

These can be done in ways that protect some of the equity concerns that have been raised in the past, and they can be done in budget neutral environments. It depends in part on just how serious and strong the Congress believes that we need to change the incentives that we now face with regard to low savings and high consumption.

Senator BREAUX. Thank you, Senator.

As we speak, the Finance Committee is having hearings on the individual retirement accounts enhancement program.

Senator Moseley-Braun.

Senator MOSELEY-BRAUN. Thank you, Mr. Chairman.

I am particularly concerned about the state of women with regard to retirement. We still, those of us who are female Baby Boomers, live longer than men. That is one of the factors that goes into the fact that 75 percent of the elderly poor are female.

So we have a separate set of dynamics with regard to women retirees. I was glad to see Mr. Salisbury has some charts in the back of his testimony regarding job tenure trends, broken out by gender, male and female. What it shows us is that women are coming into the work force in greater and greater numbers, they are staying in the work force longer. At the same time, women average, I guess the high level mark for women for job tenure trends for women is 10 years. The high level mark in 1983 was 10 years, and it's about 10 years now.

For men, however, the high level mark in 1983 was 16 years, now it's down to 12. So it's still higher.

Given that pensions are predicated on job tenure and salary, and women still make less on the dollar on average than men do, we have a triple whammy, fewer years in the work force, lower salary levels, it's 76 cents on the dollar, and I think that's a high mark and longevity.

What recommendations do you have with regard to particular approaches and strategies for women's retirement security? Because there are again specific issues going to undermining that security in the way we are presently focused in on pensions and retirement security generally.

Mr. SALISBURY. Senator, I think the first comment would be that many of the changes that the Congress has made have taken many, many steps in the direction of creating the, if you will, the balance that you're looking for. As another chart in my testimony indicates, as a result of past changes the law requires individuals to be vested after 5 years in their pension plans, in many cases with 401(k) plans, employers vest much more quickly than that. We're seeing buildups equivalent for women and men.

It's one area where the traditional defined benefit system is changing. Many employers modify the defined benefit plans through so-called cash balance plans, where it's a career average accrual, where the shorter service woman gets a much higher benefit than they would have under the traditional final pay formula.

So the combination of Federal law, which compared to when ERISA was enacted in 1974, when 20 percent of participants in pensions had a vested right to benefits, by last year that exceeded 80 percent of participants in pensions, and that's a roughly equivalent figure for both men and women.

In terms of the future, the large part of the issue here is one of preservation of the assets so that there is money there by the time individuals retire. As one of the charts indicates, we're seeing more and more defined benefit and defined contribution programs, including the Federal Employee Thrift Plan, where the dollars increasingly flow out as lump sum distributions, don't get rolled over, don't get preserved, even though the employer has spent a good deal of time, effort, and money to put funds aside, as the Federal Government does for Federal employees. That money does not stick around until the point at which they actually retire.

I think an area that the Congress should focus upon is whether plans are retirement income or capital accumulation. The issues related to preservation and keeping money in the system, once it has gone into the system, will do the most for most men and women in the long term.

I will comment momentarily on the tax reform discussion that took place. I think one of the issues is the degree to which a consumption tax, that is reform, would essentially, for practical purposes, eliminate the existing pension system. It would take any relative tax incentives that those systems have and would discourage employers from having a plan to begin with.

If we then look, the point that Senator Breaux raised, that individual retirement accounts, in the most recent year shown in my testimony of IRS data, of all individuals eligible for a fully deductible IRA in the most recent tax year, less than 6 percent chose to contribute to that fully deductible IRA. That compares to 66 percent that chose to contribute to an offered 401(k) plan through employment, with heavy duty education.

So I would suggest a tax code that does not undermine an employment based system, and one that would simultaneously create a structure that encourages far higher participation than we've been able to achieve through individual retirement accounts.

Mr. WALKER. Senator, the only thing I would say is I think women clearly are much better off today than in 1982 or 1983. There have been major changes in the law to provide for joint survivor annuities and other improvements.

But clearly, as we look forward to restructuring Social Security and to hopefully stimulating the private sector system, we need to keep in mind the special issues associated with women. They aren't in the work force as long, they have survivorship needs, etc. Especially if there is a dual, two-tier program for Social Security, a base defined benefit and a supplemental individual account element we are going to want to make sure that's preserved for retirement income with appropriate joint survivor annuity payment approaches on that portion of the account, etc.

Ms. WILENSKY. Let me add one point. It is not an issue that Congress wants to deal with at the present time, but may be forced to, as we get closer to Baby Boomer retirement. Because of the changing demographics, and very intense pressures it will put on financing, we may have to reconsider what we do and target some of our Government funding more toward those in need and less toward those who are not as much in need.

One of the many things I like about the Federal Employees Health Care Plan is, it would allow, if there was a willingness to do so, for greater contributions for lower income individuals and smaller contributions, given the same plan, for high income individuals. I think that while we spend, as a Government, an enormous amount right now on rhetoric here, we unfortunately do not provide enough support for some of our poorest seniors, and provide questionably more support than is absolutely necessary for some of our wealthiest.

One way to do that is through income-related premiums, but also through income related contributions. That would allow us to recognize that some of our citizens, particularly women who earn less and live longer, may be in need for greater Government contribution so that they can live out their retirement years in whatever minimum level of comfort we want to assure people in this country.

Senator BREAUX. Does that mean you would adjust the amount of Government contribution to a senior under this?

Ms. WILENSKY. I would not at the beginning. I would first like to introduce the Federal Employees Health Care Plan with constant contributions. I believe when we clearly face the implications of the Baby Boomer retirement, somewhere around the end of the next decade, we may then be willing to take on such an income related adjustment. I think that would be too much change in the program at once, and I very strongly support moving to a Federal employee program with a fixed Government payment as the first wave of change.

The CHAIRMAN. Senator Enzi.

Senator ENZI. Thank you, Mr. Chairman.

I'd like to say how much I've appreciated these timely hearings, but from all the testimony, we're way behind the curve here. They're not timely, they're just really necessary. Of course, I recognize the necessity of them and have for quite a while. They've become even more vivid, though, after we've had the discussion last month on the balanced budget constitutional amendment.

There have been a number of times during that discussion that both sides of the issue have talked about primarily Social Security, but some of the others of the big four, Medicare, Medicaid, and the Federal retirement system. I'm glad that we're getting some awareness of the problem there. I can tell from the discussion that we've had that none of us is quite ready to paint a target on our chest and run through the forest of senior citizens.

This particular hearing is valuable, though, because we're not talking about senior citizens. We've all agreed that we're going to protect the senior citizens. We're now talking about the Baby Boomers. What fascinates me, we talked a little bit earlier about the generation coming that believes more in a UFO than they do in seeing a dollar of their Social Security, or some of the other examples that have been given. That generation has adjusted to not having a retirement or medical plan or anything at the time they retire unless they do it themselves.

But the Baby Boomer hasn't made that adjustment. I'm right on the fringe of that, I'm a little bit too old to truly be a Baby Boomer. But I know, talking to the Baby Boomers, that they think that Social Security is going to be there, Medicare, Medicaid, and Federal retirement are going to be there. No question. No changes, no question. We know that isn't going to happen.

I'm pleased that you've helped point that out today. I did collect a few charts from the previous discussions that we've had that I've put up there that show some of the same things that you've talked about and the first one over there is the outlays by major category as a percent of the Federal budget. We see the discretionary spending going down, and the entitlements spending and the other spending going up. Of course, the "other spending" is interest on the national debt, and entitlement is the category that, over the last 40 years, has increased beyond my belief.

The second chart, of course, is one that we saw a lot of during the balanced budget Constitutional amendment. The little green line is the revenue that's going to be coming in; in keeping with the colors that we just had, red is the entitlement, the yellow is the interest, and the blue is the discretionary spending. We can see that in the year 2020, that the nondiscretionary spending—the entitlements—are eating up all of the revenue, even without the interest on the national debt. Nobody is going to let us get away without paying that interest on the national debt.

This chart shows that Social Security will have annual deficits beginning in the year 2012. In the year 2012, we will not be able to build roads or do education or any of the other things; we will just be taking care of interest and Social Security.

The final chart points out what we have also talked about this morning, which is that we're living longer and longer. We don't have a system that is actuarially sound. We aren't even talking about actuarial here; we're just talking about keeping it afloat by taking the payments from the generation that's coming up to pay the generation that is retiring. All of that is very disturbing to me, and we do have to arrive at a solution.

I want to commend each of you for the stand that you've taken today, the solutions that you have in your testimony, and your willingness to paint a target on yourself and run through the forest of the future generations.

Medicare, of course, is the most current crisis, the thing that's going to have to come up first, and if you could reiterate some of the solutions that you had on Medicare for us, I would appreciate that, very briefly.

Ms. WILENSKY. There are a number of things that you need to do in the short term. You need to find a way to reduce rates of spending growth, for hospital outpatient, for home care, for skilled nursing facilities; moving these payments to a prospective payment system where, instead of having an additional reimbursement for every single visit as we used to do in the hospital where you had a payment for every single day in the hospital; moving that to a prospective payment where you had a single payment per admission has slowed the rate of spending growth down.

Doing what we do for physician spending, where we tie the rate of reimbursement increase to however well we meet the overall spending that has been included in the budget in that sector, is a direct control way to try to keep spending at about the sustainable level that has been included in the budget.

But those are ways to buy some time in the short term, as well as to improve the per capita payment that is made for payments to seniors who go in HMO's. These payments are very volatile. This is unfair; Senator Grassley and I have had this discussion on a number of occasions, that the payments that go to certain parts of Florida, New York, or California are three times what they are to some of the counties in Nebraska, as well as some of the counties in Iowa and a number of other places. We need to make these payments less volatile, fairer, and adjust them for risk.

But fundamentally, we need to start moving to a sustainable, long-term program, and that, I believe, is one like the Federal employees' health care plan, which provides for greater options to seniors, provides them better information, allows physicians and hospitals to come join Medicaid as provider service networks, and have a flat payment made by Government that doesn't increase for more expensive plans.

The Congress can start by doing some things that provide savings up front, but if Congress don't start reforming the system soon, there is no way you're going to be able to sit through the Baby Boomers' retirement. The trust fund needs to continue until decisions are made to what other reforms are needed. I object less to the transfer of home care than I do to the fact that it is not subjected to the normal constraints that we have on Part B, modestly effective, though, as they have been, and they have only been modestly effective.

The CHAIRMAN. Senator Reid.

STATEMENT OF SENATOR HARRY REID

Senator REID. Mr. Chairman, as this hearing involves the Aging Committee, we have talked about health care for the senior population. But if this were a hearing on health care generally, we would discuss that health care for all Americans is in deep trouble. It's not just for seniors, and I think sometimes we tend to dwell on the health care delivery system as it relates to seniors and forget about the fact that we have 40 million people who have no health insurance. Half the children in America have no ability to have health insurance. More than half the children in America have no ability to see a dentist. So I think these too are things we can't forget about.

One of the things that I was interested in that was brought up today is a consumer based tax. We have, we did have at the beginning of the last Congress, some real advocates for this. The Chairman of the Ways and Means Committee in the House, Congressman Archer, over here, Senator Lugar ran for President on that issue, saying that we should do away with the present income tax system and develop totally a consumer based tax.

What do you think of Lugar and Archer's idea? Now, remember, not a value added tax, but a consumer based tax to do away with our present income tax system. I'll hear comments from anybody that wants to talk.

Ms. WILENSKY. We are normally an incremental society. I find it unlikely that we will completely dismantle our current income tax, which has been the foundation for much of our Government revenue, and move entirely to a different tax system. It is easier to imagine reforming the tax system so that it doesn't do certain things that we think it is now doing, for example, encouraging expenditures on health care, because of the excludability of employer sponsored premiums.

Senator REID. So in short, you think that Lugar and Archer's ideas are bad?

Ms. WILENSKY. I don't know the specifics enough for saying they are bad. It strikes me as not being realistic.

Senator REID. Not doable?

Ms. WILENSKY. Highly unrealistic, given where we are. I would like to see an adoption of a value added tax appropriately defined for some of the revenues we now collect under the income tax and a reform of the income tax. But I would like to see the specifics of what they are proposing before I would say that I would not count them at all.

Mr. WALKER. Without commenting on the specific proposals, I would say that I think we clearly ought to look at flatter and lower income taxes and consumption tax approaches. We need to move to a more savings friendly environment with appropriate adjustments for certain types of consumption that might, for social reasons and because of the poor, etc., we might want to make certain adjustments. For example, to exempt food and certain types of essentials from any consumption tax.

But I think that's something we're going to need to do. I think the health care incentive is a very perverse one right now. But when we do make tax changes, we need to keep in mind that we need to encourage savings in general and retirement savings in particular. We've got to be very careful, because some of the approaches proposed to take would not accomplish that objective.

Senator REID. The problem we have, and I know the Finance Committee deals with this on a daily basis, is we hear statements, we've heard them here today, accountability, awareness, sustainable long term program, we hear these generalizations. When you try to put them into practice, they become very difficult and that's what the Finance Committee deals with, as I indicated, every time they meet.

I served for a year on the Entitlement Commission and it's clear the income tax system has some real problems, the information we got there, $400 billion a year just to collect the tax. That's the information we got there.

So I'm a believer, and we have to do something to drastically change the present tax system, whether it's a mixture, or bite the bullet, and do something that would be drastic and change it entirely. I'm convinced we have to do something. I don't think any of the three of you would disagree, would you?

Ms. WILENSKY. No.

Senator REID. Senator Breaux asked specific questions about raising premiums or raising the age and different variations. I'd like to hear from each of you as to what two things you think we should do to help maintain the Medicare Program, which has been a good program, and if you don't think it's been a good program please tell me, and of course, I'd like you to address Social Security. What can we do to maintain the, for the out years, Social Security Program, give me a couple of ideas that you think we should do, rather than theories, just things we should do legislatively to change the programs.

The CHAIRMAN. Ms. Wilensky.

Ms. WILENSKY. First of all, let me agree with you, I think Medicare has been an extremely good program. It solved the major job we wanted it to, which was give access to health care for seniors who had had difficulty receiving services prior to 1965. It however has perverse incentives, and it doesn't have strong enough direct controls to overcome those incentives.

The first major change, and that includes a lot of specific changes——

Senator REID. Is this for Medicare?

Ms. WILENSKY. Medicare. Is to adopt the FEHB environment and that means to offer a variety of choices, annual enrollment, information that is available to the seniors in the month prior to their enrollment, Government oversight with regard to plan performance and benefits and grievance processes, etc. Most importantly, a flat Government contribution that is either set administratively at the lower third or half of what a plan would charge for the Medicare package, or set competitively. I think how you set that price is something that we need to experiment with.

The second is, in the longer term, is consider whether the Government can pay the full amount to all seniors regardless of their income and wealth position. Income relating programs is difficult. It requests a change in Medicare's philosophy. It is somewhat easier to do for seniors, because their income is substantially more stable than the under 65 population. I believe that you could make income related contributions adjustments without having undue administrative burdens.

In the short term, its possible to just use more effective direct controls. Right now, we rely only on direct controls, but they're not very good ones.

Senator REID. How about Social Security?

Ms. WILENSKY. There, I very much like the notion that the Social Security Commission talked about of this tiered approach, where you allow for a portion of Social Security taxes to be invested in a certain amount of——

Senator REID. By whom?

Ms. WILENSKY. By the individual in certain Government-approved programs. I would also put a limit on the amount of fringe benefits that could be excludable from tax income. Right now, we have some that have no limit, we have some that have limits. I think we need to recognize money is fungible and decide how much we will allow to put it across the board.

Senator REID. How about you?

Mr. WALKER. Senator, with regard to Medicare, and I'm looking further out rather than short term changes, because the real significant——

Senator REID. You explained that earlier in your testimony.

Mr. WALKER. Yes. Further out, I think we will only have a couple of options. Either A, we have to provide seniors with a choice of different levels of coverage, many of which will have managed care approaches and a fixed dollar amount that they will then have that they can use. They can then choose what options they want. If they want a more expensive option, they're going to have to come out of pocket more. On the other hand, if they want a less expensive option, then they may have adequate resources through this one payment to cover it.

Alternatively we could take more dramatic steps. The first approved pretty much keeps the system for seniors, but adjusts how it's handled. I think more dramatically, the Government needs to rethink the proper roles for Government, employers, and individuals in health care. To me, there are two key issues on health care. The first is, access to health care, affordable health care at group rates. The second is, who pays for it. You mentioned earlier that 40 million Americans don't have health insurance, some of which voluntarily don't have health insurance.

It seems to me that one of the things the Government could think about, although there would have to be a long transition, is maybe the Government ought to be in the business of providing catastrophic coverage for all Americans. Because Americans want a lot of health care. On the other hand, what they need and what we can afford is protection against financial ruin due to an unexpected catastrophic illness, Government could also provide pooling mechanisms such that individuals would be able to purchase more health care if they want to, but they're going to have to come out of pocket if they do it.

Last, to try to do something to try to provide preventive care and inoculations for children, because that's very cost beneficial. We'll save a lot of money if we do that.

Now, that's a lot more fundamental change. It would have to include an appropriate transition period. In the absence of that, then a tiered approach. As far as Social Security, we have to look at the retirement age for both programs, given changes in life expectancy, and second, I think we have to strongly consider a two-tiered approach.

The CHAIRMAN. Thank you, Senator Reid.

Thank you, panel members. It was a very good panel, and we thank you very much.

I'll call the second panel. It's Ms. Madelyn Hochstein, and she's president and co-founder of DYG, Inc., of Danbury, Connecticut.

Ms. Hochstein is going to discuss the level of knowledge of the public in general, and more specifically, the Baby Boomers with respect to the current and future financial condition of Medicare, Social Security, and Baby Boomers retirement prospects.

Ms. Hochstein, thank you very much for coming.

STATEMENT OF MADELYN HOCHSTEIN, PRESIDENT AND CO-FOUNDER, DYG, INC.

Ms. HOCHSTEIN. Good morning, Mr. Chairman and members of the committee and thank you very much for including our research in your deliberations today.

I am indeed Madelyn Hochstein, president of DYG and what I'm going to share with you are the results of research that we've really been conducting on an ongoing basis since the mid–1980's, focused on Social Security, Medicare, and health care. This research has been sponsored by the American Association of Retired Persons, AARP.

But this research, and I want to emphasize this, is not traditional public opinion research as we all know and love it. This research focuses more on underlying values and attitudes with regard to these issues. So in this research we're not looking at specific policy options. We're not testing opinions about policy options, but rather, we're exploring underlying values and attitudes.

As I say, the research has been going on for a while. The findings I'm drawing from are from a study we call the Anniversary Study of 1995, updated in 1996——

Senator REID. Mr. Chairman, the charts that were referred to by Senator Moseley-Braun were your charts, they were not this other man's charts, is that right?

The CHAIRMAN. I can't answer it.

Ms. HOCHSTEIN. Yes, if that's the gray book, yes and what I've done this morning is just pull a few of them out for us to take a look at in the next several minutes. But yes, if that's the gray book, that's it.

Just very quickly before we get to the charts, let me tell you a little bit about the method. Because I think it's important to understand that we're using surveys and focus groups for the basis for this work. The surveys are samples of 2,000 interviews a piece, and that is a very large sample, as you know. The reason for it is that we can do 500 interviews in each of the generations, the 18 to 29 year old generation X-ers, Baby Boomers, mid life Americans, and seniors. Then we put it all back together in balance.

But it allows us to do a much more in-depth analysis by age, income, etc., than normal studies of 1,000. The research is done by telephone, and the interviews tend to be 30 minutes in length.

The focus groups are ongoing, and we've been all over the country in all regions of the country doing the groups, among again, all age groups. I'm also going to refer this morning to work we do on our own at DYG, our ongoing SCAN work on cultural and social trends in the country which gives us some context for understanding this material.

Let me get to the results of the study. In this in-depth tracking research and our current social trends work, what we see suggested is a perspective on Social Security and Medicare for policymakers that goes something like this. We find the public climate clearly growing more complex, and what we really need to do now is take a short term/long term framework in thinking about these issues, with a recognition that for the long term, values and attitudes may evolve very differently for Social Security and Medicare. In other words, they may branch off in different directions.

Let me take 1 minute on the short term, and then we'll get to the more relevant, I think for today, longer term. There is no doubt that for the short term, the American public, young and old, strongly values both Social Security and Medicare, and sees them as twin pillars of financial security for today's older Americans. There are no signs of support for pulling back on either program for today's beneficiaries, and a clear expectation that the programs will not be weakened.

What we've identified are some underlying values, American's values concerning Social Security and Medicare for today's older workers. On chart one, we have just a few of the examples of the data relevant there. Americans view the programs as commitments that cannot be broken at very high levels. Seventy-seven percent say vital to their financial security, older peoples' financial security, and to that of their families, and essential to "the good health and longevity of older people."

So you can see in this chart here, for example, "Medicare makes it possible for me to remain, that should be for me or older people to remain independent" as high as 83 percent.

We also find that consideration of curtailment would be viewed as unfair for today. In the second chart, what you see is indeed a sense that for today, Social Security and Medicare need some strengthening from the public's point of view, and very importantly, some cleaning up, especially in the area of fraud, waste and abuse in Medicare.

In total, 87 percent of Americans agree with this statement in the chart, "Medicare funds would be sufficient if fraud, waste and abuse were eliminated." I'm showing it here by the different generations. There is no variation across generations. So it is a very key question.

Also, one more point on the short term and it's very important, I think, for thinking about the policy environment. The 1995–1996 Medicare debate served to strengthen commitment to Medicare in our tracking rather than to divert it or to weaken it.

Now, of course, of more interest today is the longer term. Here we find strong evidence that the country is getting ready to re-evaluate the roles of Social Security and Medicare for the next generation up, the Baby Boomers. In a sense, the way we read the results, the mid–1990's are like the mid–1930's, with an open public policy question about how to best provide financial support to aging Americans in the 21st century.

Our research suggests that from the public's point of view, the focus of the question for the long term is really not on the specifics of how to adapt, fix and alter the Government programs called Social Security and Medicare, but rather, the public's way of thinking about all this is the open question of a broader notion about retirement, what will it be, how will I finance my security in retirement, including my health security, how am I going to achieve that, and then underneath that, where will Social Security and Medicare fit in, if at all.

So from the public's point of view, and particularly the Baby Boomers' point of view, it's really a larger question that's being dealt with.

It also appears that as Americans work through the new question about retirement, they're going to rely on different attitude sets with regard to Social Security and Medicare. I'll show you more about this a little bit later. But at this point, what appears to be clear is that there's a view that income funding might be better achieved, at least for some people, through individual initiative, while no viable private alternative to a Government-financed approach to health care is seen, and we'll get to some data on that in a minute.

The research also shows that the public will bring the following factors to the rethinking process. Let's go through a number of charts on this. The first factor to take into consideration, and we've heard already about it this morning, is the, we might say, extraordinary lack of confidence in Social Security's future financial viability and the belief that even today, its support is inadequate. I want to show you this issue of inadequacy in a second.

But take a look here, because what we find is that it is the Baby Boomers that have the very lowest level of confidence in the future of Social Security. The Generation X-ers actually have a significantly higher level at 33 percent. So overall, about one out of three Americans have confidence in the future. That falls to only 23 percent among Baby Boomers.

If we go to the next chart, I want to emphasize that there are really two factors behind this low confidence. We've heard this morning, and it is very clearly true, that the low confidence comes from a lot of information, disinformation, and misinformation out there. But it's based on this perception, in part, that it won't be there, that it's in trouble, that it's already broke, etc. I don't need to belabor that.

There is from the research, though, a second insight about why Baby Boomers, particularly, have such low confidence. It is linked to the idea that they believe it's already, in 1997, inadequate in terms of what it provides and I've got two charts here.

First of all, we asked in the work, what should it provide, and then what does it provide. This is Social Security today and you see this very interesting gap because people feel that it should provide more than it actually does. A comfortable standard of living, more people believe it should, almost three out of ten, believe it should do that, and only 8 percent think that it does. Then 42 percent think that it should provide an adequate standard of living, and only 27 percent feel it does that.

On what it really should, what it's supposed to do, which is partial, only 27 percent think it should do what it really should do, and about 59 percent think that that's what it does do. So there's already an imbalance in what people think it should do; the expectations, in other words, are higher than they might otherwise be.

The next chart—by the way, those figures, when you look at Baby Boomers, are even more dramatic in terms of the gap.

On the next chart, what we've looked at is the question of, are payments too high, too low, or adequate. There is a growing perception between 1995 and 1996 that they are, in fact, inadequate today. In total, 50 percent, and if you look at Baby Boomers, nearly six out of ten, believe that today's payments are too low.

So part of the lack of confidence is about a sense that it's not doing enough now; what could it be doing in the future?

Another factor beyond confidence is, and we'll go to the next chart, a real self-reliance thrust emerging in the country, the belief that I can do better on my own. This is obviously currently fueled by a very hot Wall Street. But as everyone points out including Baby Boomers in our focus groups, the vagaries of the stock and bond market must apply in our thinking about this because everyone knows that what goes up could possibly come down.

On this chart, you see agreement to the statement, "I'm confident I could do better investing the money I pay into Social Security on my own." In total, 63 percent of Americans believe that. That moved up from 59 percent in 1995 to 1996. What we have here are Generation X-ers at 67 percent and Baby Boomers at 62 percent.

So you have a significant majority who believe they could do better on their own.

However, if we go to the next chart, here comes the interesting contradiction in thinking. I think it introduces a true cautionary note here. At the same time that we're feeling so good about doing better on our own, there is an underlying risk adverseness that demands a security blanket even as we embrace self-reliance.

Oh, excuse me, this is yet another chart on that, which is that we've been tracking this question about would you get out of the Social Security system if you were given the option. While it's very low, the percent that would—it's up to 32 percent among Baby Boomers, one out of three—is getting to be a real number, that say that they would opt to get out.

May I continue just a little bit?

The CHAIRMAN. We were going to allot you 10—you used 12. Could you finish in three more minutes?

Ms. HOCHSTEIN. I can do it.

The CHAIRMAN. Thank you.

Ms. HOCHSTEIN. I just want to show you this very important balancing point. "I may not need Social Security when I retire, but I want to know it's there just in case." You have 91 percent, 87 percent of Baby Boomers, who agree with that as well.

To just conclude this, you can see already this enormous contradiction. Our chairman, Daniel Yankelovich, talks about public opinion, moving through stages, beginning with a sense of urgency and sort of a learning process, working through information tradeoffs to public judgment. The key here is that when you see contradictory data that says on the one hand, I am confident I can do better on my own, and on the other hand, I want it there just in case, it's a major sign that we're in the beginning of the process, not at public judgment.

Our takeaway from all of this research is that we are ready as a country, particularly Baby Boomers, to start a true investigation. But we are not nearly at the point of action. There is a true cautionary note in the research as well as the indication of an opportunity to open a debate with the Baby Boomers included in it, rather than to move rapidly to action.

With that I'm done, and you have several different documents with lots in it.

[The prepared statement of Ms. Hochstein follows:]

SOCIAL SECURITY AND MEDICARE

An Ongoing Study of Public Values
And Attitudes

Fall 1996
Conducted by DYG, Inc.

In Collaboration with
Survey Design and Analysis Department
Research Division
AARP

For
The American Association of Retired Persons

Study Background and Objectives

Since the Mid-1980's, AARP has commissioned a series of studies on attitude and values re Social Security, Medicare and Health Care.

Going well beyond AARP's public opinion tracking, these special studies focused on underlying attitudes and values.

The findings and insights reported on here are drawn from the 1995 Anniversary Research:

- Key measures updated in 1996.
- Comparisons to 1985 measures as well.

The goal of this analysis is to explore the question:

- After 60 plus years experience with Social Security and 30 plus with Medicare - and given the current social climate - how does the public view Social Security and Medicare for today and for tomorrow?

- The purpose of this research is not to test policy options; rather, it is an exploration of values and attitudes that will shape public reactions to policy options.

Study Method

Survey

- 2000 interviews
- 500 interviews in each of four age groups
  - ... 18-29 - Generation X
  - ... 30-49 - Baby Boomers
  - ... 50-64 - Mid-life Americans
  - ... 65+ - Seniors
- By telephone
- 30 minutes in length - 1985, 1995
  - ... Selected questions updated in 1996

Focus Groups

- A series of focus groups diverse in age conducted in
  - ... Charlotte, North Carolina
  - ... Providence, Rhode Island
  - ... Phoenix, Arizona
  - ... Chicago, Illinois
  - ... Fort Lauderdale, Florida
  - ... Kansas City, Missouri
- Between February and September 1995, January and June 1996
- Among
  - ... 21 - 29 year olds
  - ... 30 - 49 year olds
  - ... 50 - 64 year olds
  - ... 65 and older
- In median income range for region for each age group

DYG SCAN^{sm}

- A social trend tracking program conducted by DYG since 1987

Overview

This in-depth tracking research and our current DYG social trends work suggest the following perspective on Social Security and Medicare for policy makers.

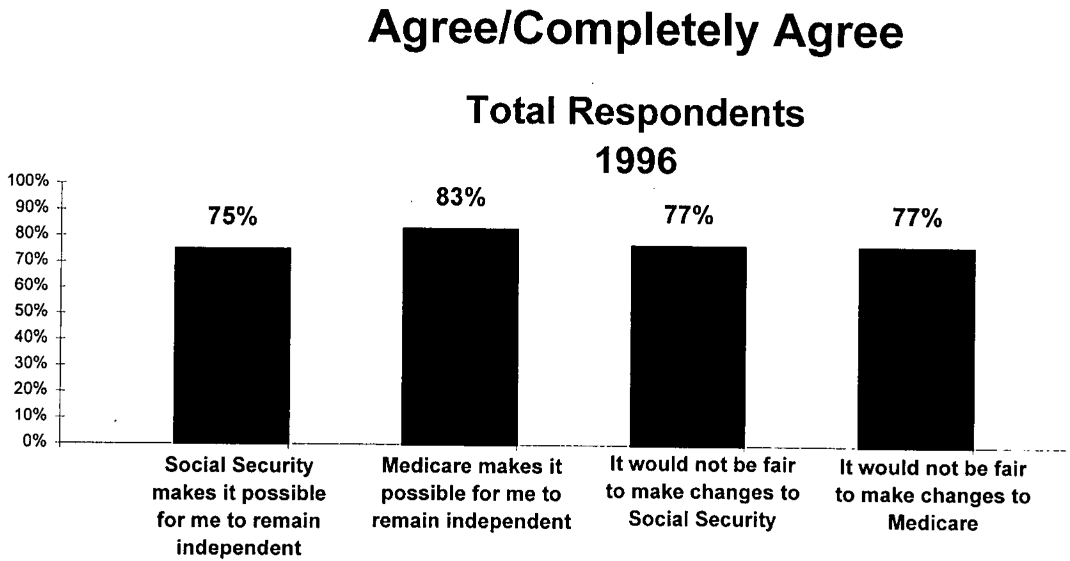
Overall, the public climate is clearly growing more complex and now requires a short term-long term framework and a recognition that, for the long term, values and attitudes may evolve very differently for Social Security and Medicare.

Considering the short term first:

- There is no doubt that the American public - old and young - strongly values Social Security and Medicare as twin pillars of financial security for today's older Americans.
  - ... There are no signs of support for pulling back on either program for today's beneficiaries and a clear expectation that the programs will not be weakened.
- Americans view Social Security and Medicare for today's older Americans as
  - ... Commitments that cannot be broken.
  - ... Vital to their financial security and that of their families.
  - ... Essential to their good health and longevity.

  And consideration of curtailment would be viewed as "unfair".
- Indeed, there is a sense that for today, Social Security and Medicare need strengthening and some "cleaning up" - especially fraud, waste and abuse in Medicare.
- Very important for the short term policy environment, the 1995-1996 "Medicare Debate" served to strengthen commitment to Medicare.

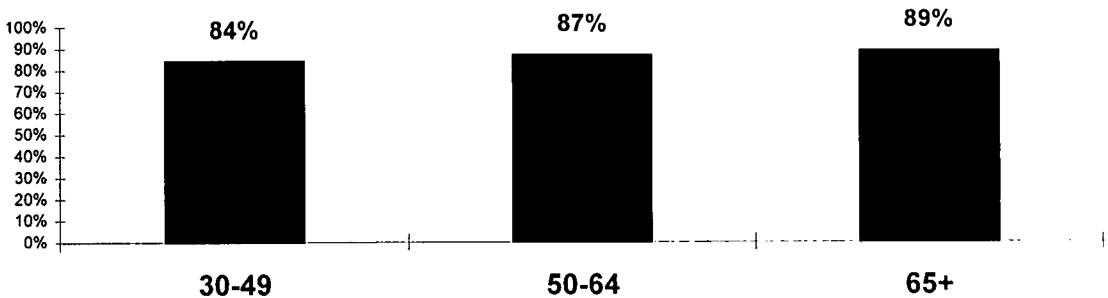
CHART 1



NOTE: Top two boxes on a 4 point agree/disagree scale.

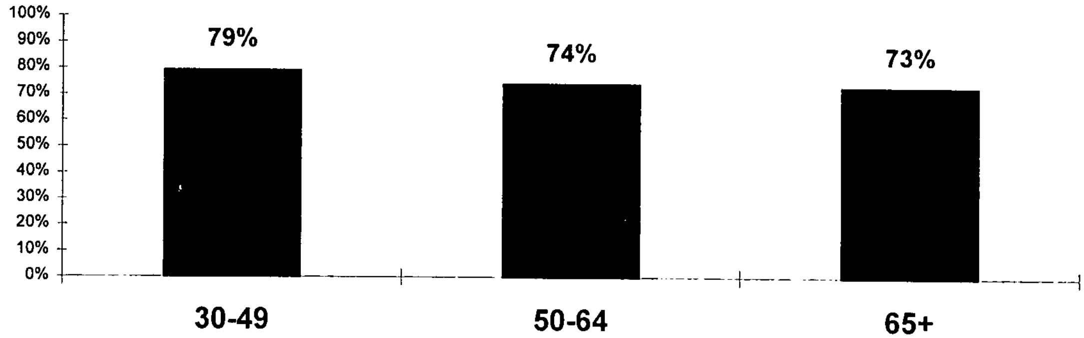
Agree Completely/Somewhat

I'm Glad We Have Medicare Because Taking Care of Parents Would Be Too Much Of A Burden Without It 1996



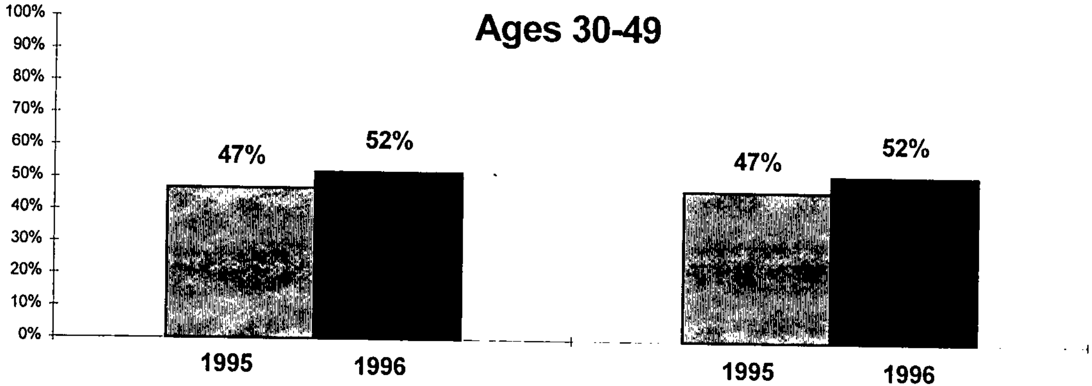
NOTE: Top two boxes on a 4 point agree/disagree scale.

Agree Completely/Somewhat
The Government Made A Commitment To People About Medicare
1996



NOTE: Top two boxes on a 4 point agree/disagree scale.

"Completely Agree"



Older people would really suffer in terms of financial security without Medicare

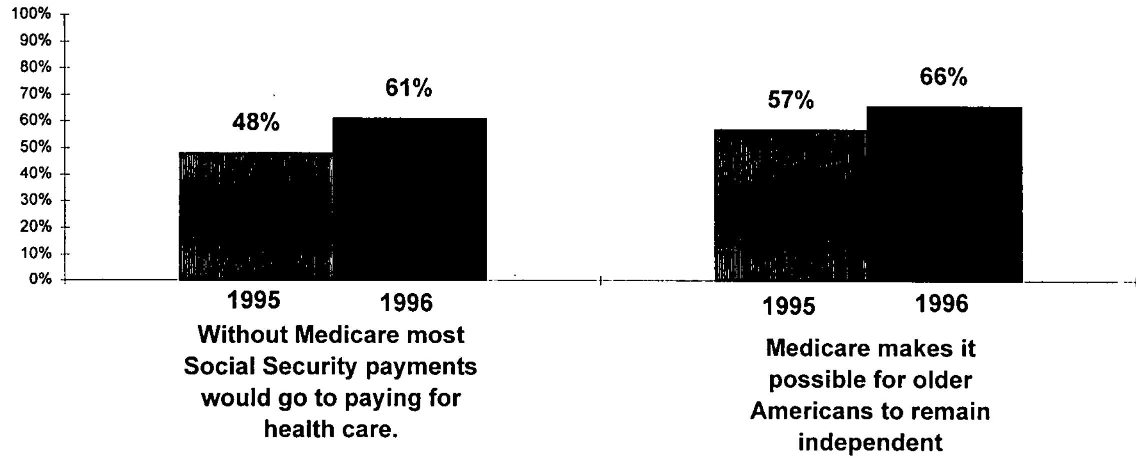
Glad to have Medicare because taking care of parents is too much of a burden without Medicare

NOTE: Top box on a 4 point agree/disagree scale.

CHART 5

"Completely Agree"

Age 65+



NOTE: Top Box on a 4 point agree/disagree scale.

Attitudes Regarding Medicare

	Total		18 to 29		30 to 49		50 to 64		65 +	
	1996	1995	1996	1995	1996	1995	1996	1995	1996	1995
	%	%	%	%	%	%	%	%	%	%
Agree Completely/ Somewhat										
Medicare funds would be sufficient if fraud, waste and abuse were eliminated.	87	87	85	88	88	88	88	89	89	84

Turning to the long term:

- There is strong evidence that the country is getting ready to reevaluate the roles of Social Security and Medicare for the next generation - the Baby Boomers.

  ... In a sense, the mid-1990's are like the mid-1930's with an open public policy question about how to best provide financial support to aging Americans in the 21st century.

- It is important to recognize that

  ... The focus of the question for the long term is not on how to adapt, fix or alter the government programs called Social Security and Medicare.

  ... Rather, the open question is a broader one about retirement

  - What will it be?
  - How will financial security, including health security, be achieved?
  - Where will Social Security and Medicare fit in, if at all?

- It appears that as Americans work through the new questions about retirement, they will rely on differing attitude sets with regard to Social Security and Medicare, e.g.

  ... At least at this point, there is the view that income funding might be better achieved (at least for some) through individual initiative while no viable private alternative to a government financed approach to health care is seen.

- It also appears that the public will bring the following factors to the rethinking process.

  ... Lack of confidence in Social Security's future financial viability and the belief that even today its support is inadequate.

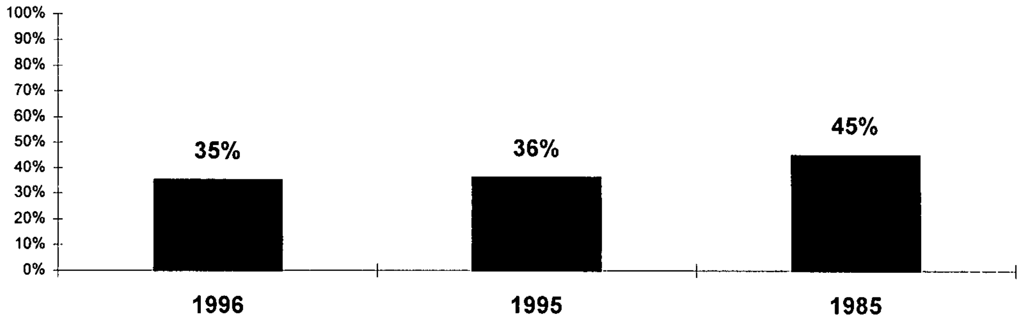
  ... A self-reliance thrust - the belief "I can do better on my own"; currently this is fueled by a very "hot" Wall Street, but the vagaries of the stock and bond markets will apply.

  ... An underlying risk averseness that demands a "security blanket" even as we embrace self-reliance.

  ... Issues of fairness, equity and commitment in re-evaluating the role of government in the future funding of retirement.

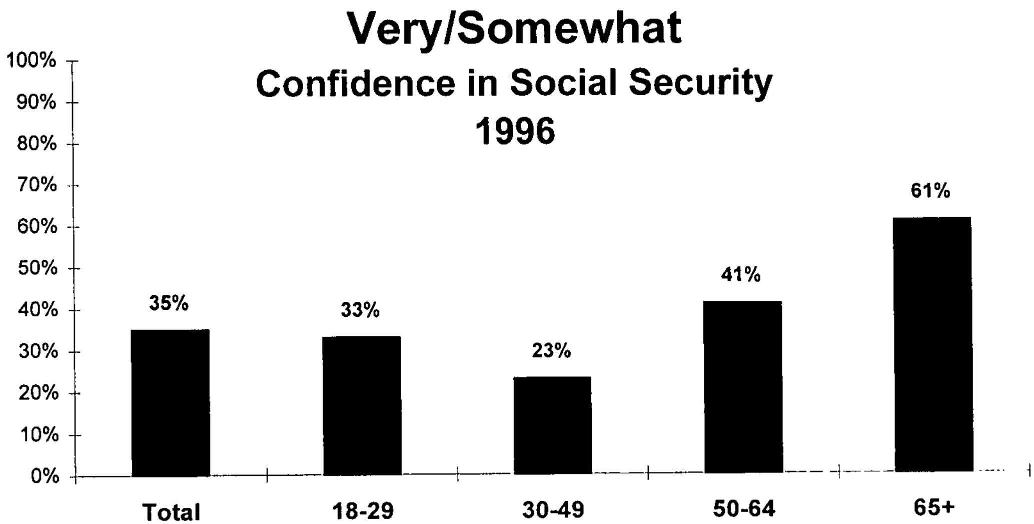
CHART 6

Very/Somewhat
Confidence in the Future of Social Security
Total Respondents



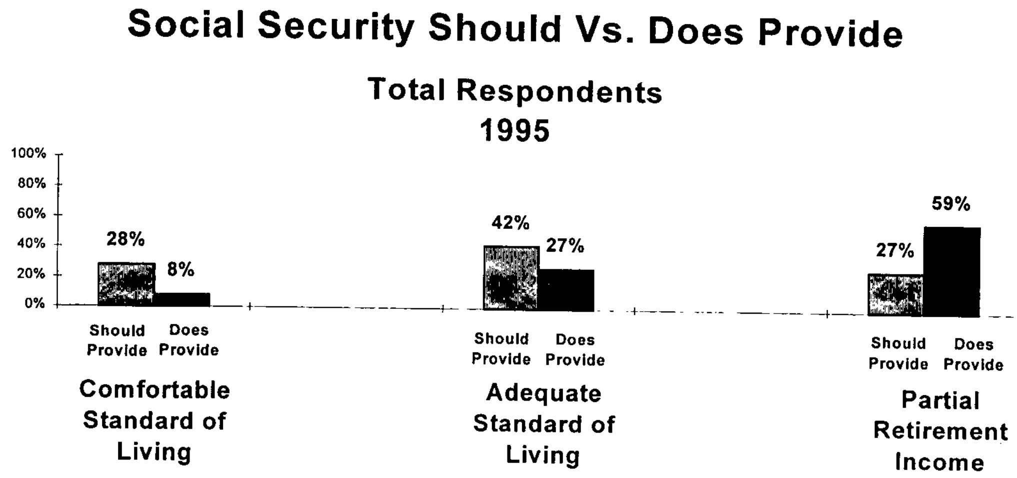
NOTE: Top two boxes on a 4 point very/somewhat scale.

CHART 7



NOTE: Top two boxes on a 4 point confident/not-confident scale.

CHART 8


Social Security Should Vs. Does Provide
Total Respondents
1995
100%
80%
60%
40%
20%
0%
28%
8%
42%
27%
27%
59%
Should Provide
Does Provide
Comfortable Standard of Living
Adequate Standard of Living
Partial Retirement Income

104

CHART 9

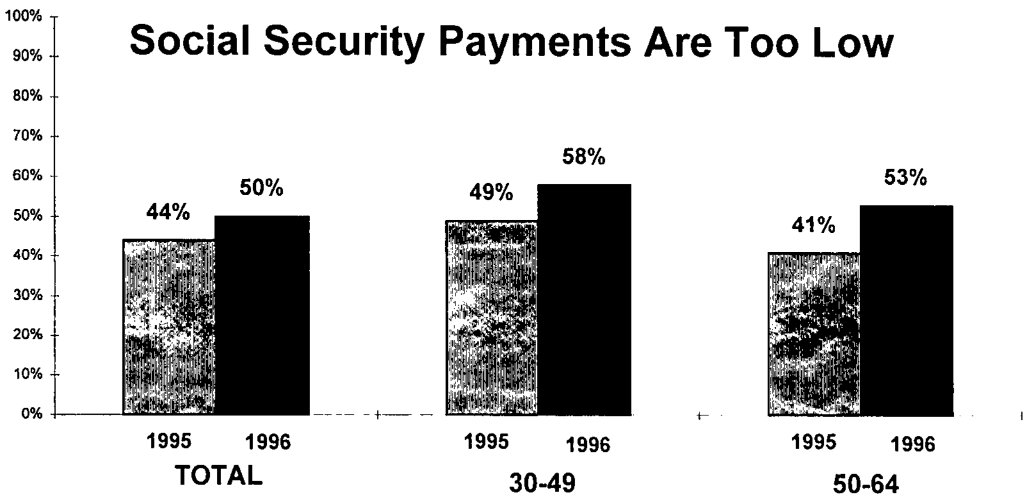

Social Security Payments Are Too Low
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
44%
50%
49%
58%
41%
53%
1995
1996
TOTAL
1995
1996
30-49
1995
1996
50-64

CHART 10

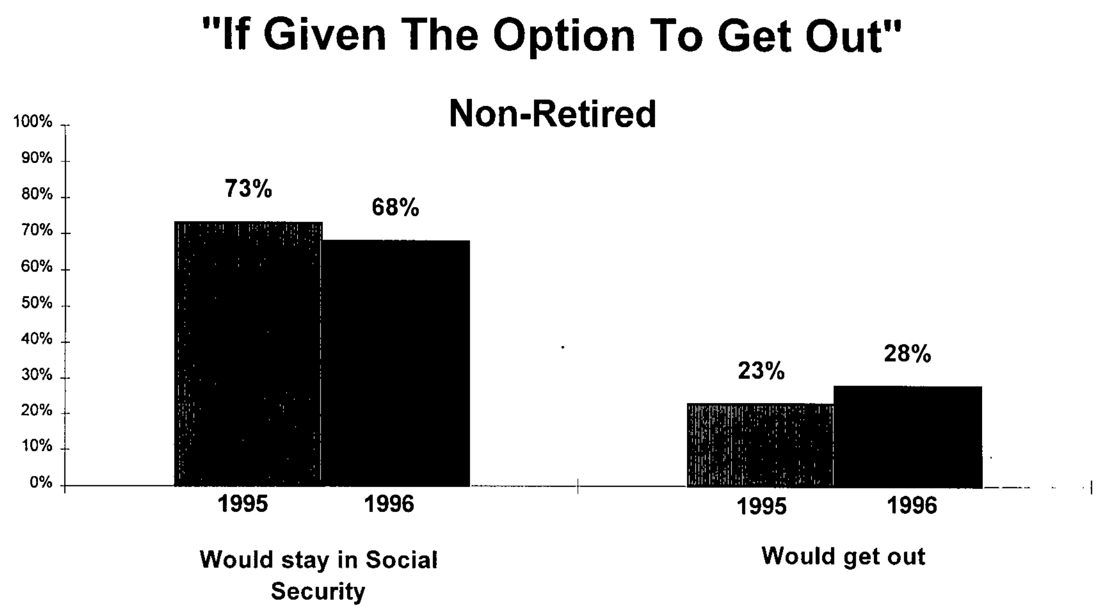
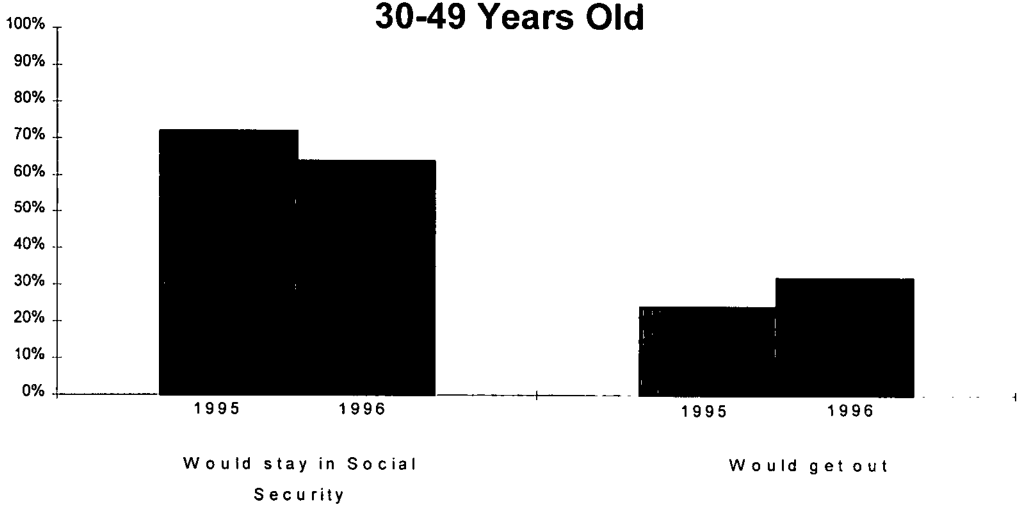

"If Given The Option To Get Out"
Non-Retired
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
73%
68%
23%
28%
1995
1996
1995
1996
Would stay in Social Security
Would get out

CHART 11

"If Given The Option To Get Out"

30-49 Years Old



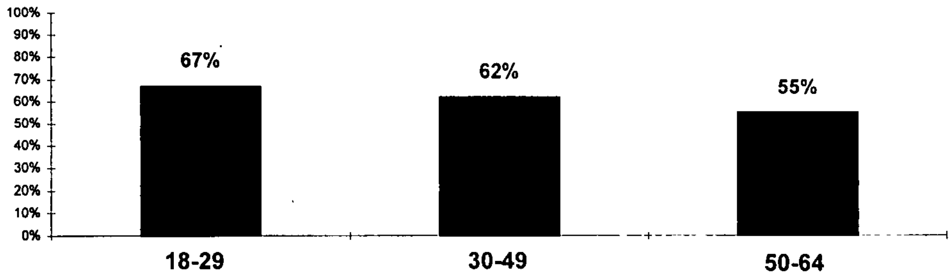
Attitudes Toward Social Security - Non Retired

Agree Completely/Somewhat	1996 %	1995 %
I am very confident that I could do better on my own investing the money I pay into Social Security.	↑63	59

CHART 12

"Agree Completely/Somewhat"

Confident Could Do Better On Own Investing Money I Pay Into Social Security
1996

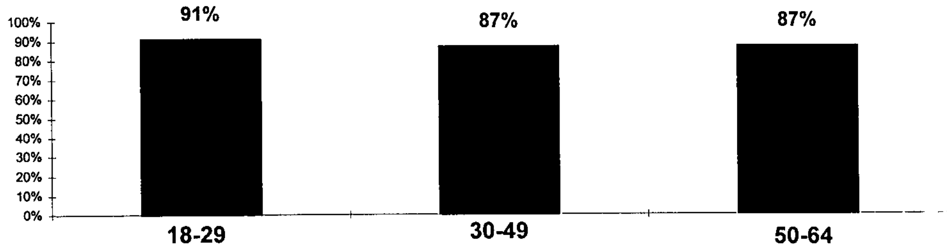


NOTE: Top two boxes on a 4 point agree/disagree scale.

CHART 13

Agree Completely/Somewhat

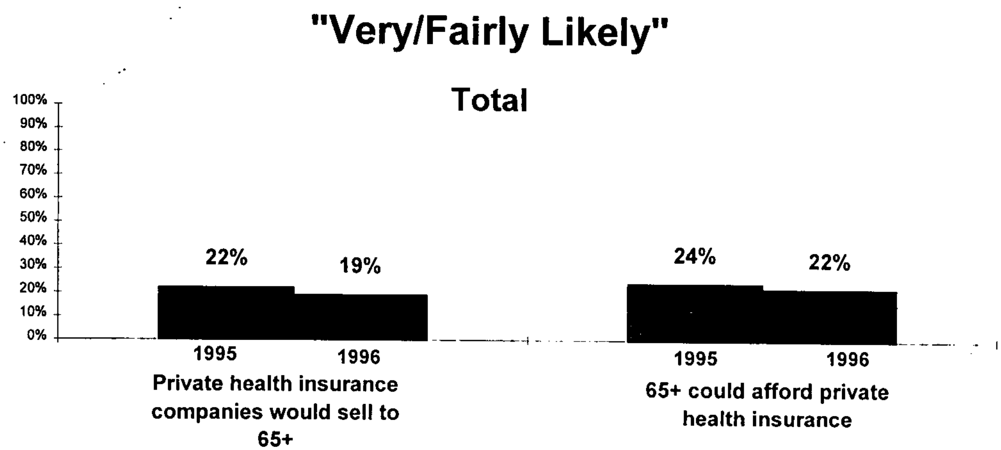
May Not Need Social Security When I Retire, But Want To Know It Is There In Case I Do
1996



NOTE: Top two boxes on a 4 point agree/disagree scale.

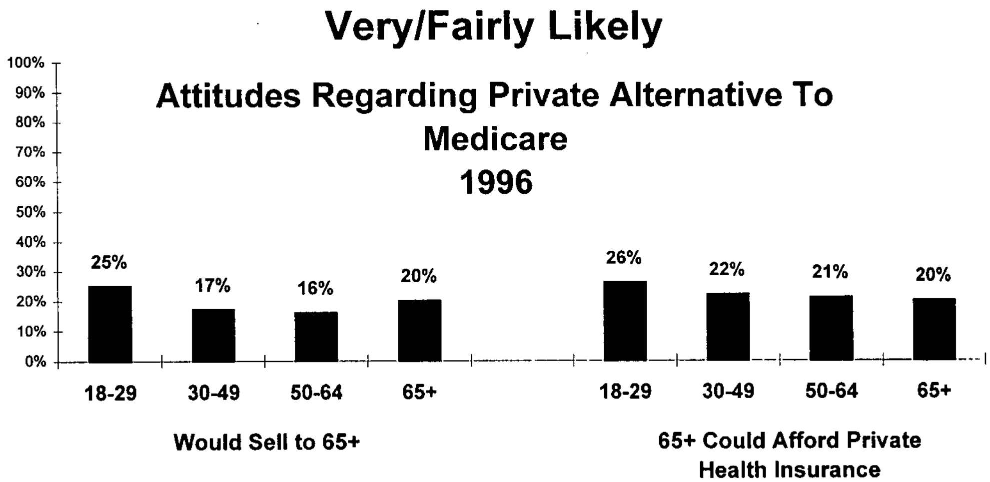
	Total %	Retired %	Non retired %
Agree Completely/Somewhat			
The government made a commitment a long time ago that can't be broken			
Social Security	80	81	80
Medicare	77	76	77

CHART 14



NOTE: Top two boxes on a 4 point likely/unlikely scale.

CHART 15



NOTE: Top two boxes on a 4 point agree/disagree scale.

Social Security Gender Gap

	1996	
	Women	Men
Agree Completely/ Somewhat	%	%
One of the very most important government programs.	59	46
Even though might do better on own, important to contribute for common good.*	88	76
Believe we should continue Social Security.*	91	76
Agree		
Confident could do better on my own.*	53	72

*Non retired respondents only.

Social Values Context

I. Adaptation to a more limited economic outlook.

II. Sober, uncertain view of the future but more confident "I can handle it", especially Baby Boomers.

III. More focus on the future.

   A. Especially Baby Boomers.

IV. Less confidence in institutions.

   A. Especially government.

V. Toward self reliance.

VI. At the same time, risk averseness.

   A. Led by Generation X.

   B. Baby Boomers lag.

VII. Social values trends currently reveal Baby Boomers to be uniquely "high" on own survival skills, ability to deal with the future.

   A. Reinforced by Baby Boomers on-going traits of

      1 Higher expectations.

      2 Higher comfort requirements.

      3 Penchant for "reinvention".

In conclusion:

The public discussion is just beginning and has a long process to work through, a series of stages to travel through.

A. Using Daniel Yankelovich's model for public opinion development, the new "issue" of funding retirement for the Baby Boom is in stage #1 - consciousness raising - and must work through information gathering and trade-off evaluation before coming to public judgment about what the best course will be.

The implications for the public policy arena appear to be:

I. The need to shore up (not reinvent) Medicare for today's beneficiaries and protect Social Security short term.

II. The need for a debate about retirement in the future and how it will be funded.

  A. Not about Social Security and Medicare, per se; but about the larger questions and then where Social Security and Medicare fit in.

  B. To include the Baby Boom.

III. The need to include in the debate and discussion:

  A. The role of Wall Street.

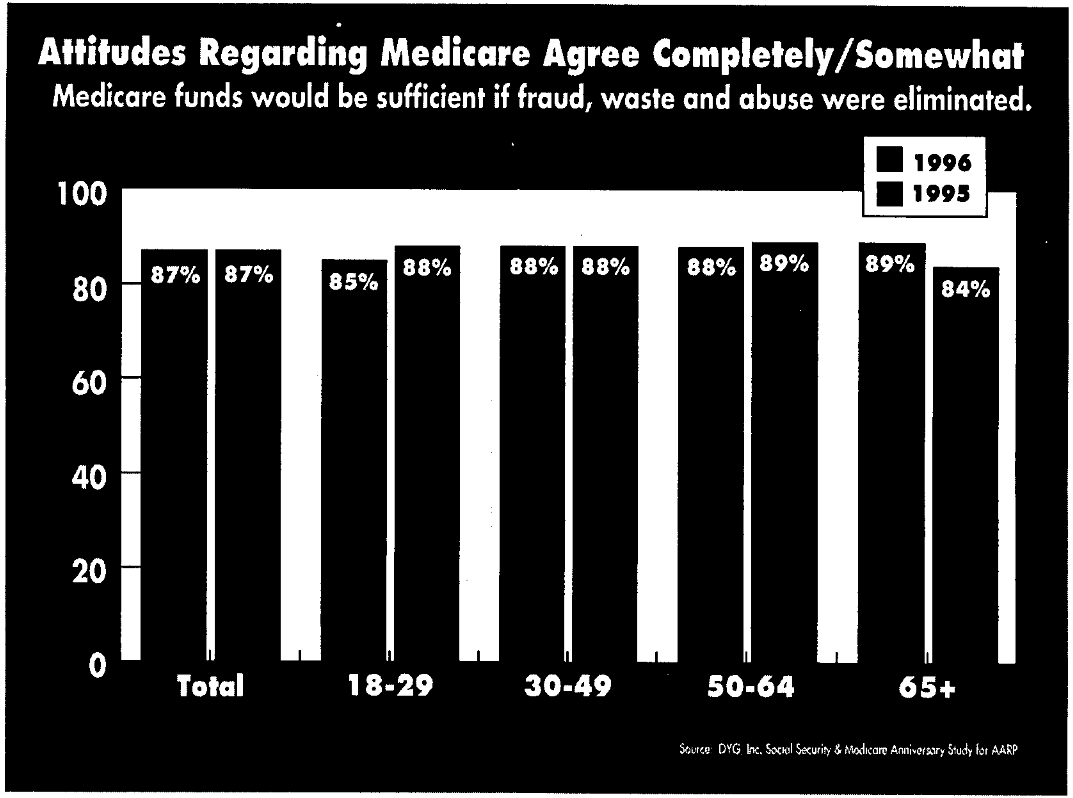
  B. The need for a "security blanket".

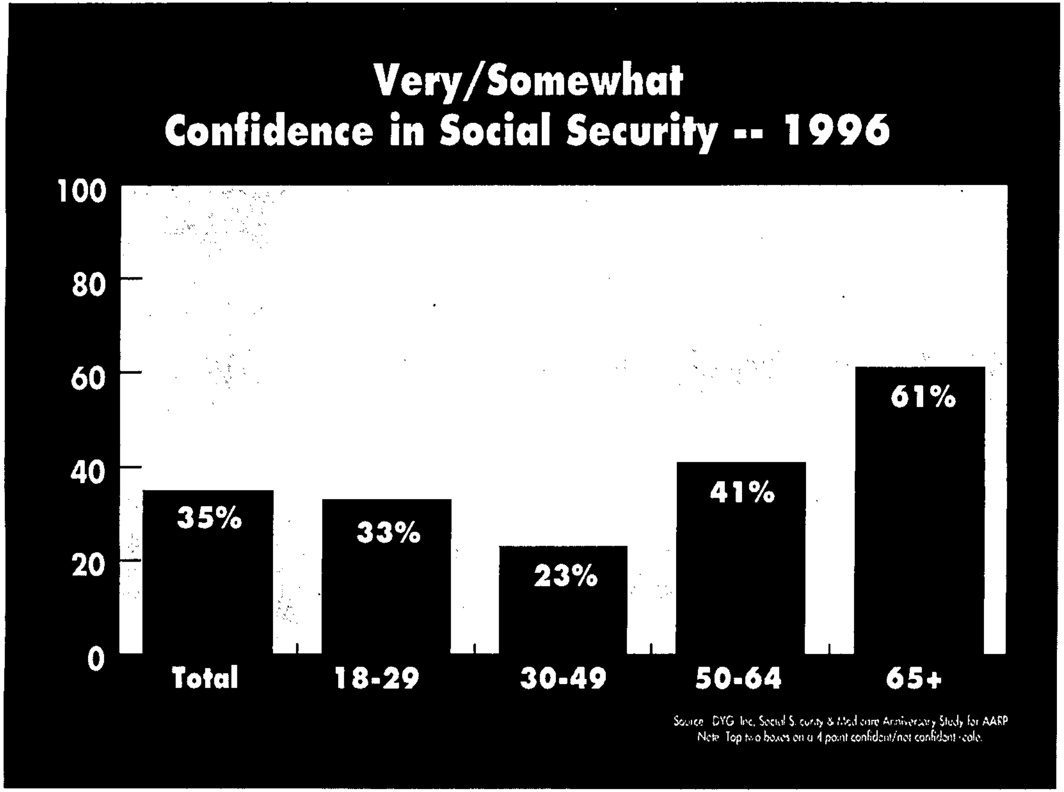
  C. Fairness and commitment.

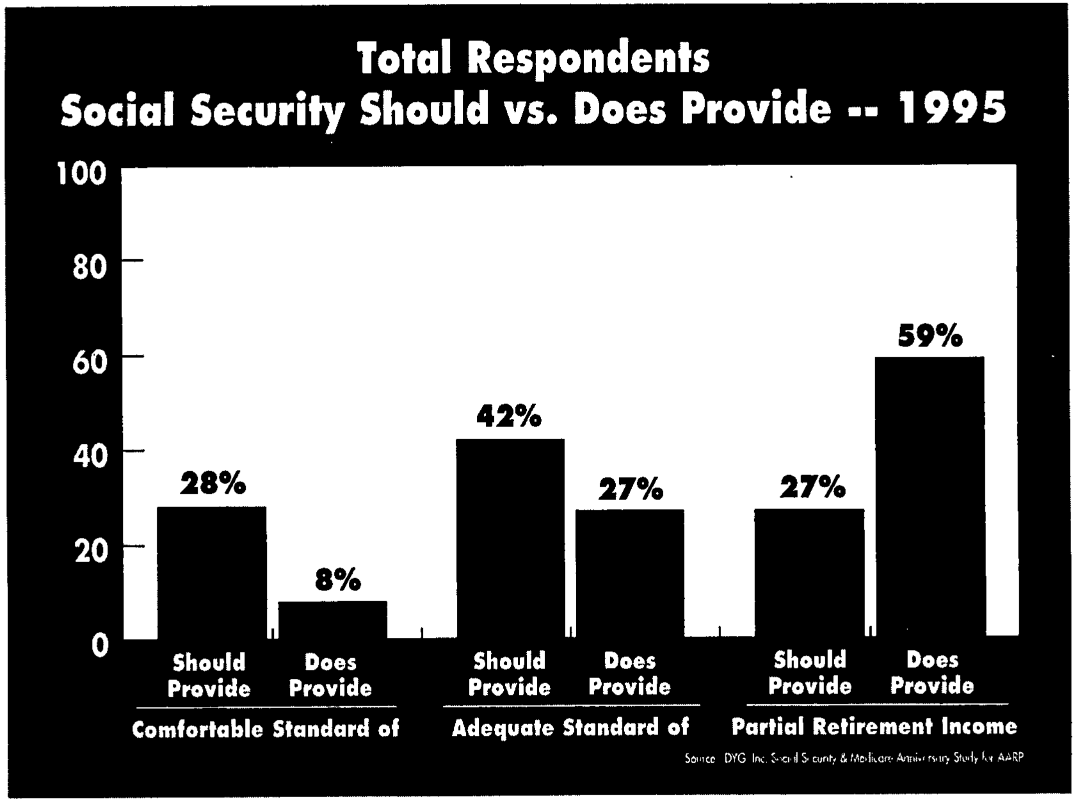
IV. Most important, the need to recognize that this is only the opening of the debate.

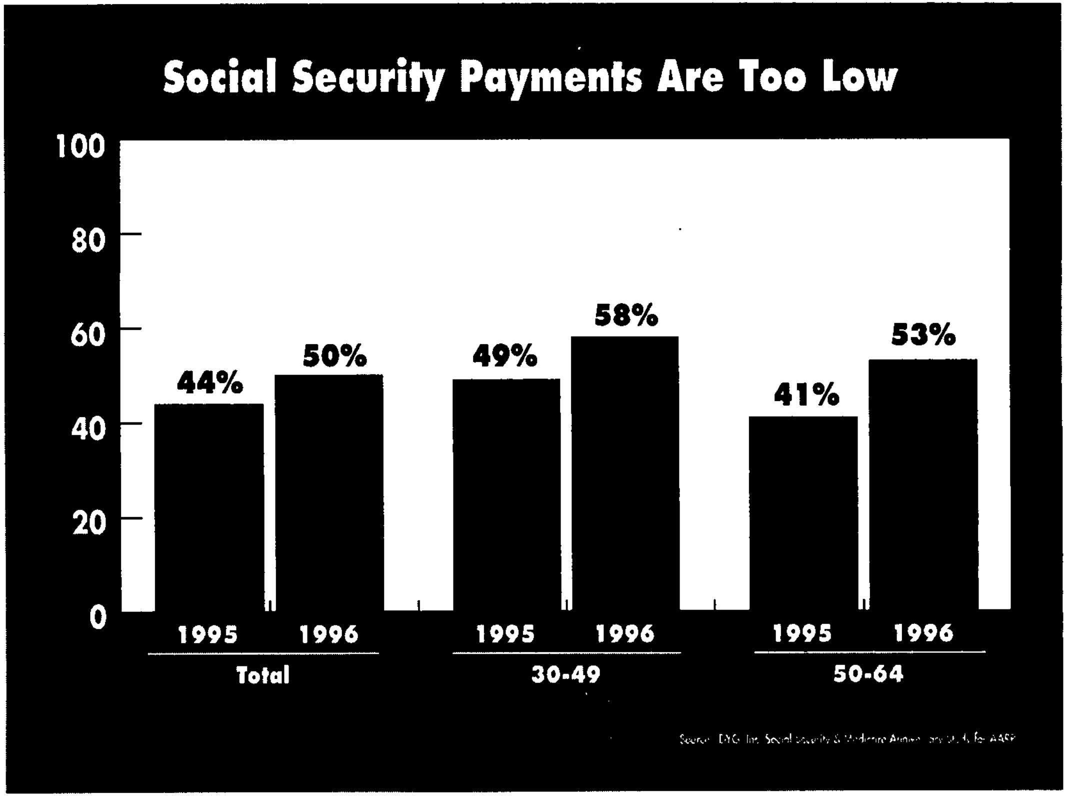
  A. It is not a mandate for privatization or any action now.

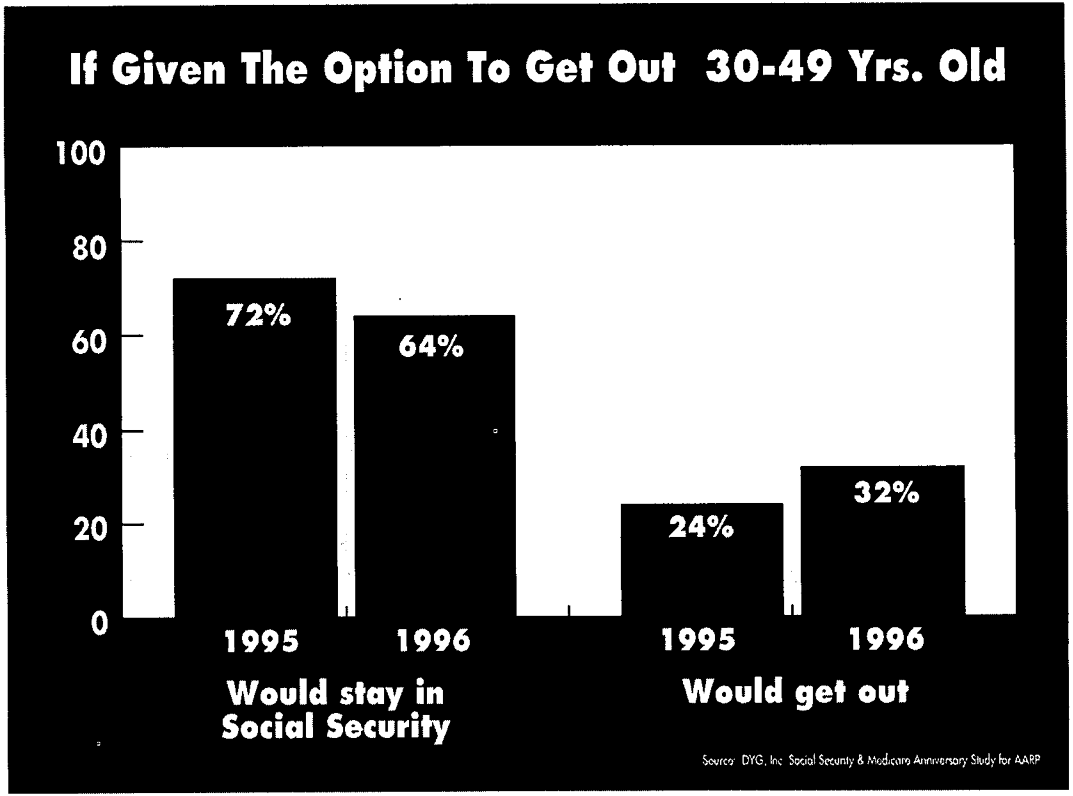
    Time must be allowed for public "working through."

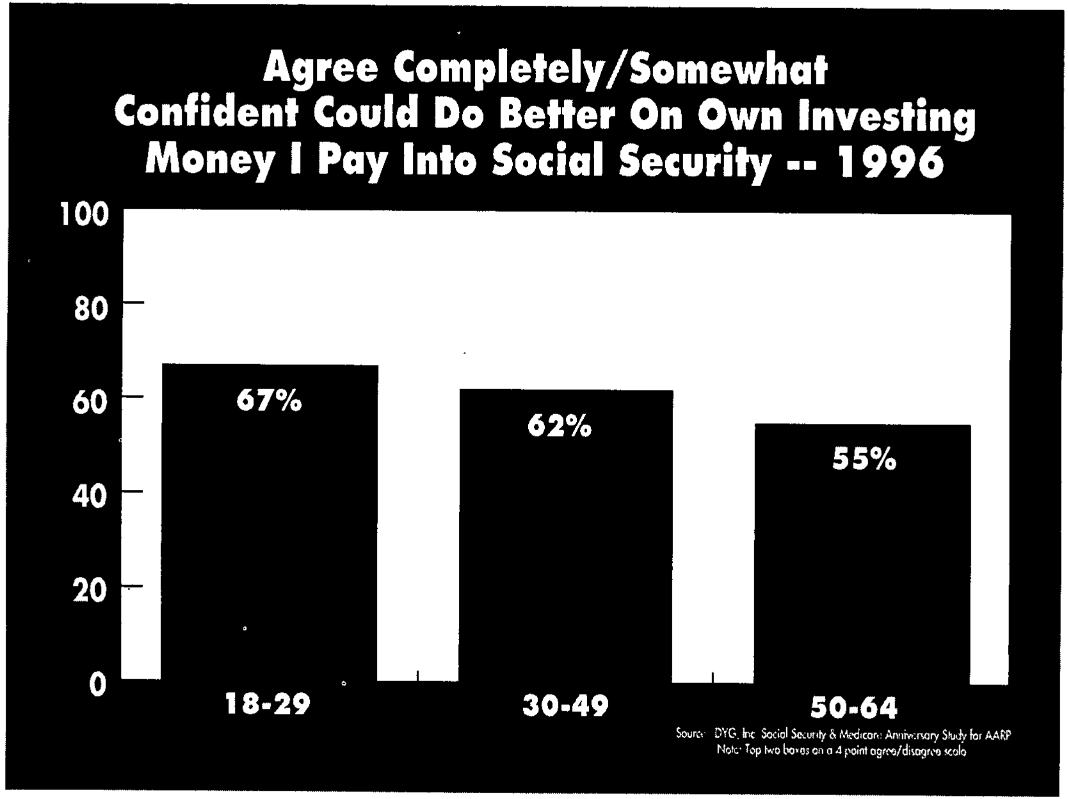

Attitudes Regarding Medicare Agree Completely/Somewhat
Medicare funds would be sufficient if fraud, waste and abuse were eliminated.
1996
1995
100
80
60
40
20
0
87%
87%
85%
88%
88%
88%
88%
89%
89%
84%
Total
18-29
30-49
50-64
65+
Source: DYG, Inc. Social Security & Medicare Anniversary Study for AARP


Very/Somewhat
Confidence in Social Security -- 1996
100
80
60
40
20
0
35%
33%
23%
41%
61%
Total
18-29
30-49
50-64
65+
Source: DYG Inc. Social Security & Medicare Anniversary Study for AARP
Note: Top two boxes on a 4 point confident/not confident scale.

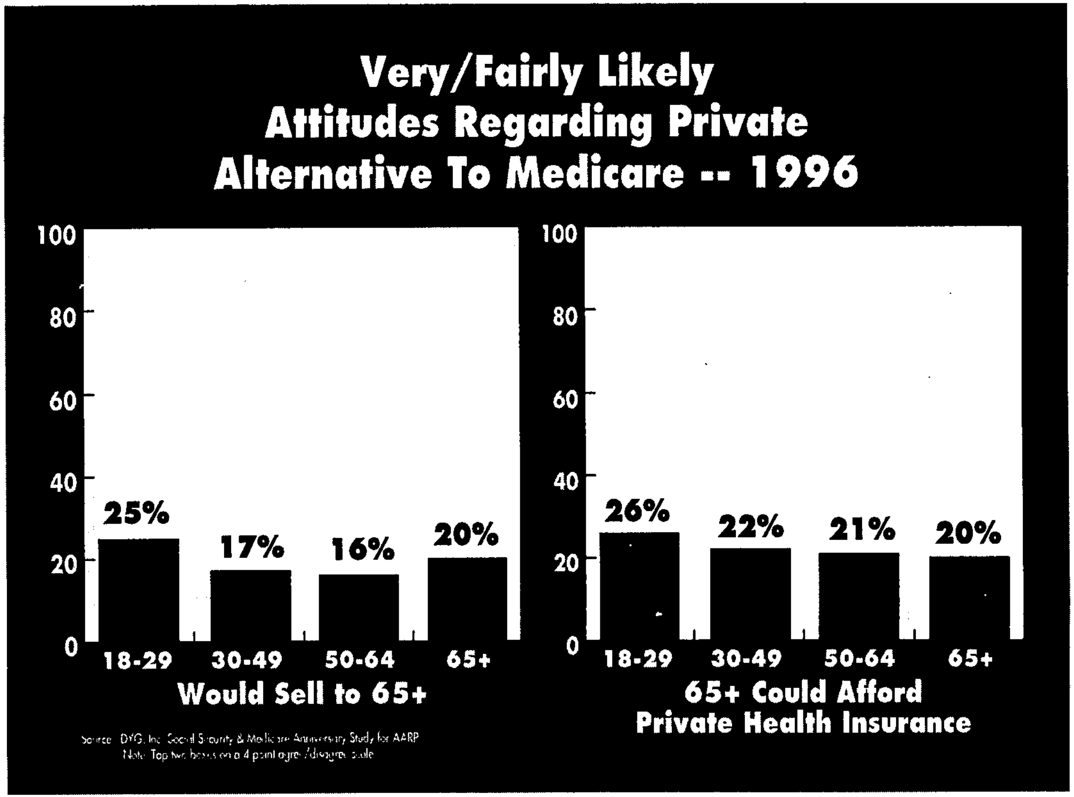

Total Respondents
Social Security Should vs. Does Provide -- 1995
100
80
60
40
20
0
28%
8%
42%
27%
27%
59%
Should Provide
Does Provide
Comfortable Standard of
Should Provide
Does Provide
Adequate Standard of
Should Provide
Does Provide
Partial Retirement Income
Source: DYG Inc. Social Security & Medicare Anniversary Study for AARP

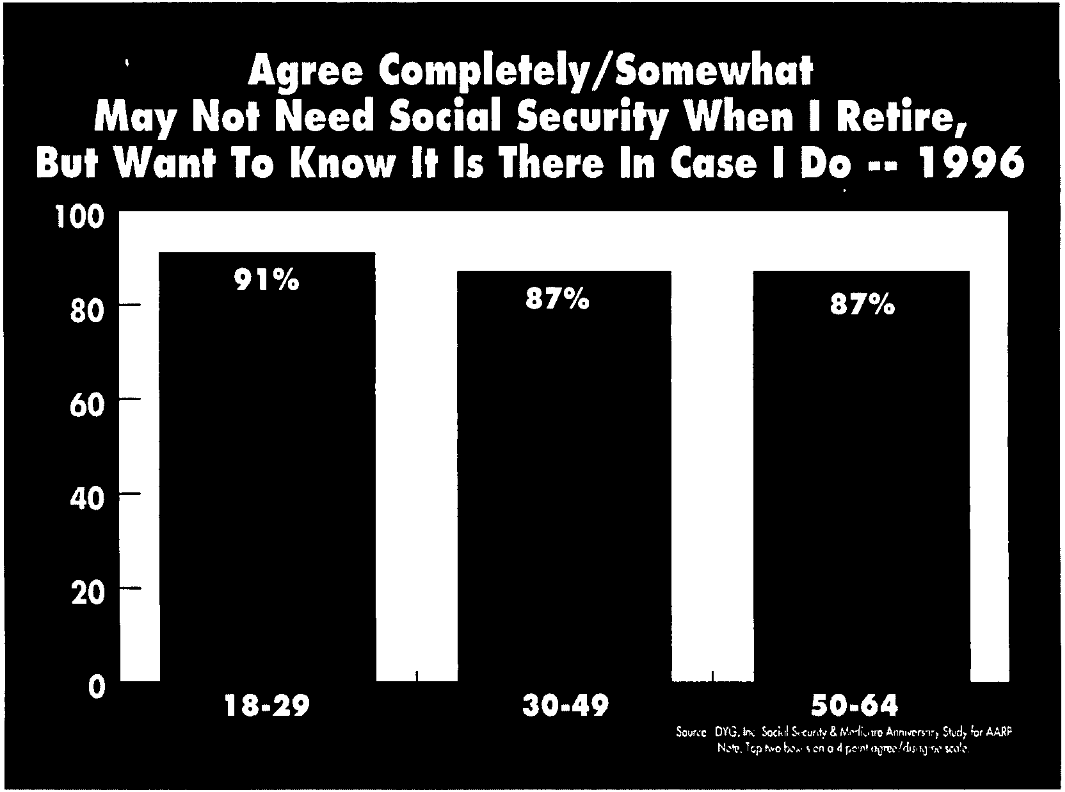

Social Security Payments Are Too Low
100
80
60
40
20
0
44%
50%
49%
58%
41%
53%
1995
1996
Total
1995
1996
30-49
1995
1996
50-64

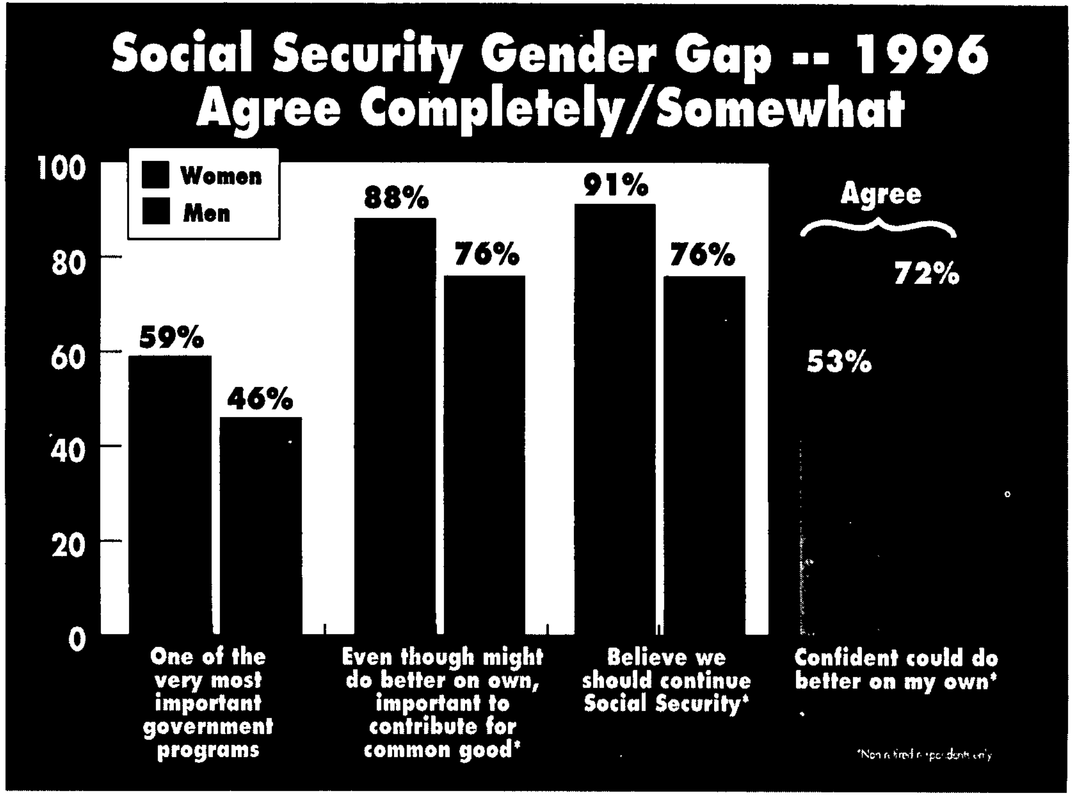

If Given The Option To Get Out 30-49 Yrs. Old
100
80
60
40
20
0
72%
64%
24%
32%
1995
1996
1995
1996
Would stay in Social Security
Would get out
Source: DYG, Inc. Social Security & Medicare Anniversary Study for AARP

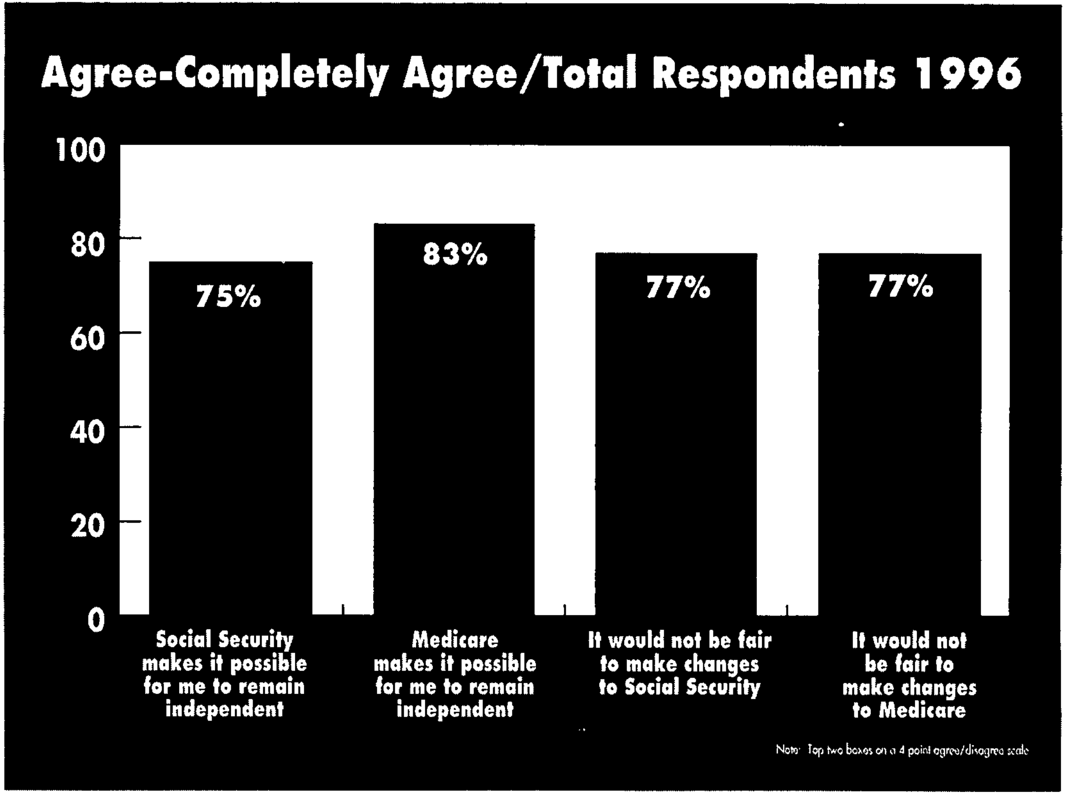


Agree Completely/Somewhat
Confident Could Do Better On Own Investing
Money I Pay Into Social Security -- 1996
100
80
60
40
20
0
67%
62%
55%
18-29
30-49
50-64
Source: DYG, Inc. Social Security & Medicare Anniversary Study for AARP
Note: Top two boxes on a 4 point agree/disagree scale


Very/Fairly Likely
Attitudes Regarding Private
Alternative To Medicare -- 1996
100
80
60
40
20
0
25%
17%
16%
20%
18-29
30-49
50-64
65+
Would Sell to 65+
26%
22%
21%
20%
18-29
30-49
50-64
65+
65+ Could Afford
Private Health Insurance
Source: DYG, Inc. Social Security & Medicare Anniversary Study for AARP
Note: Top two boxes on a 4 point agree/disagree scale


Agree Completely/Somewhat
May Not Need Social Security When I Retire,
But Want To Know It Is There In Case I Do -- 1996
100
80
60
40
20
0
91%
87%
87%
18-29
30-49
50-64
Source: DYG, Inc. Social Security & Medicare Anniversary Study for AARP
Note: Top two boxes on a 4 point agree/disagree scale.


Social Security Gender Gap -- 1996
Agree Completely/Somewhat
Women
Men
100
80
60
40
20
0
59%
46%
88%
76%
91%
76%
Agree
72%
53%
One of the very most important government programs
Even though might do better on own, important to contribute for common good*
Believe we should continue Social Security*
Confident could do better on my own*


Agree-Completely Agree/Total Respondents 1996
100
80
60
40
20
0
75%
83%
77%
77%
Social Security makes it possible for me to remain independent
Medicare makes it possible for me to remain independent
It would not be fair to make changes to Social Security
It would not be fair to make changes to Medicare
Note: Top two boxes on a 4 point agree/disagree scale

The CHAIRMAN. You provided very valuable information. My questioning is going to be in regard to what you lay out here as obviously an understanding of what the public wants, what they expect. Then other people have laid out what the problems are—the first panel did—and getting from responsible policy, from where the public feels that there may not be much of a problem, or they think there's a problem. They don't want to admit it, so that makes changing policy here in Washington very difficult.

So my first question is in regard to this issue you brought up about the second or third chart, that everybody feels that waste, fraud and abuse is going to solve the problems. I'll bet every one of us, including the four of us here, have that as part of our solution when we're out talking to constituents. So I don't want to sound like I'm not part of the problem, too.

How do we get that message out?

Ms. HOCHSTEIN. What I'd like to contribute here is our observation, given the work that we do, on the relationship between reality and perception. We believe very strongly that if going head to head, perception always wins. So coming in with the reality is an extraordinarily difficult challenge, particularly with one of the cultural trends in place today, which is the great cynicism and distrust about everything that we see and hear.

So it is truly an enormous challenge. We believe, as one takeaway from the research, that as you say, the first thing that must be addressed, first for real, is the waste, fraud and abuse issue, and register with the public before I think they'll even begin to listen to anything beyond that.

That's how formidable that nearly 90 percent belief is.

The CHAIRMAN. I would encourage any organization, particularly a 36 million-plus member organization like the American Association of Retired Persons and the smaller organizations like the National Council of Senior Citizens. I think that they ought to challenge Washington but they're also challenging the public at large, if they would for a 5- or 6-month period of time, sort of a sustained campaign, put it right on the front of their newsletter: Listen folks, anybody in Washington can tell you that if we take care of waste, fraud and abuse, as important as it is, and as much as that's needed to be done, it's kind of a fraudulent approach to the problem.

Don't accept that as an answer. Expect your people to get the fraud out of the program and the mismanagement out of the program and run it better. But if we're going to solve this problem and everybody in Washington knows it's got to be solved, and anybody that's connected with any advocacy group knows it has to be solved. We have to break through this barrier.

So I would suggest that there may be even a better approach. These organizations are respected by their readers. I can tell it when I go to my town meetings, people bring bulletins and they say, it says this in this bulletin. It's just like they're reading it out of the Bible.

So if it makes that sort of an impression, a campaign to defuse the hoax of waste, fraud and abuse would help us educate the public and maybe get beyond that to other important issues.

My last question, before I go to my colleagues, is, you noted that the public, in its very early stages of coming to grips with these issues, and still doing that, yet one of the themes that we're hearing today from witnesses who approach these problems from different perspectives, is that delay in fixing the financial situation of these problems is a bad idea. How can we deal with this? How do you get the public to engage in the discussion, and how long does it take the public to come to closure on big issues as complicated as these, and do we have to have a crisis in these programs before the public will be supporting change?

Ms. HOCHSTEIN. Well, I certainly hope, and we don't believe we have to have a crisis, but there is no doubt that——

The CHAIRMAN. We had to wait for a crisis in——

Ms. HOCHSTEIN. No, we're hoping not. But I think that what you're raising is a very real and significant and complex question. In his book on the subject of moving public opinion from mushiness to judgment, Dan Yankelovich talks about the really difficult gap between leadership knowledge and expertise and sense of what needs to be done immediately and the lag in terms of the public coming along, and the fact that in this day and age, that's complicated by a much more assertive American public, particularly when you're dealing with the Baby Boomers, who want to be part of the debate, who don't passively want things done for them.

So the first point, I guess, is that they've got to be engaged. I think the difficult thing I'm going to share with you is it takes a long time to move from stage one to public judgment, no matter what the real urgencies are. I think what it suggests is progressivity, step by step, kinds of approaches as opposed to trying to take on major things before the public is ready to come along.

It also, back to your first question, demands information and education, and a new kind of dialog with the public along the way, in order to get them to face tradeoffs and then moving to public judgment.

The CHAIRMAN. Senator Breaux.

Senator BREAUX. Thank you very much, Ms. Hochstein.

What you revealed here today is a great information gap that exists among the public about the extent or even the existence of the problem. Before we in Congress are going to be able to solve the problem, the American people are going to have to be convinced there is a problem other than fraud and abuse, because if they're not convinced there is a problem, they're not going to be willing to accept some of the very difficult solutions that we may propose.

I'll tell you a quick story. I was back in Louisiana, around the time we were dealing with the health care reform package and Medicare. An elderly lady came up to me in the airport, and asked Senator, you're all working on health care reform? I said, yes, ma'am, we certainly are. She said, whatever you do, just make sure the Federal Government doesn't take over my Medicare. [Laughter.]

I mean, I just said, don't worry, we're not going to let that happen, because I didn't have enough time to explain to her that it's a Federal program, passed by Congress, and run by the Government. She loved it, she just didn't want the Government to have anything to do with it.

My staff points out that most people, apparently from your survey, think that waste, fraud and abuse are like a line item in the budget. I mean, if we simply strike it out, we'll solve the problem. It's absolutely amazing that 87 percent of the people think we can solve this problem just by eliminating waste, fraud and abuse, which means we have a long, long way to go before we're able to talk about increasing the age limitation, means testing premiums, or changing the whole system to a managed care type of system. They think these actions are really not necessary.

So I think your information has been very, very helpful, and please convey our appreciation to Dan Yankelovich. We were just talking to Harry Reid about having a presentation like this before our policy committee luncheons. I think it would be very helpful.

So we really have to help, and this committee, Mr. Chairman, can do this, educate the American public about the extent of the problem. They are not convinced the problem is there and we'll never solve the problem with tough recommendations legislatively unless the people out there have an idea that in fact there is a serious problem. A great information gap that exists and your poll, I think, clearly spells that out for us.

Thank you very much.

Ms. HOCHSTEIN. You're very welcome.

The thing is that not only in terms of this question of problems, it's that they see different problems than the real ones.

The CHAIRMAN. Senator Collins.

Senator COLLINS. Thank you very much, Mr. Chairman.

I really appreciate your holding this hearing. As a Senator, I have a professional interest in it. As a Baby Boomer, I have a very personal interest in it.

I have an opening statement which I'd like to submit for the record.

The CHAIRMAN. It will be accepted yes.

[The prepared statement of Senator Collins follows along with prepared statements of Senator Glenn, Craig, Burns, Reid, Shelby, Feingold, and Warner:]

PREPARED STATEMENT OF SENATOR SUSAN COLLINS

Mr. Chairman, I am honored to have the opportunity to serve on the Senate Special Committee on Aging. My predecessor in the Senate, Senator William S. Cohen, had a long and distinguished history with this committee, and I look forward to carrying on in his tradition.

The topic of this first hearing is particularly appropriate because it reminds us that the problems of retirement security are not just of concern to older Americans, but ultimately will affect us all.

The demographics of the next century are daunting. Today there are 33 million Americans 65 and over. That number will grow to 70 million by 2030, when the baby boom generation is fully retired, imposing unprecedented burdens and challenges for Social Security, Medicare, and private pension systems.

The pressure imposed by this rising tide of Baby Boomers is intensified further by two factors. First, the number of workers who will be paying into the system when the Baby Boomers begin to collect benefits is shrinking. In 1950, we had more than 16 workers paying into the Social Security system to support each beneficiary. Nine years from now there will be just 2.6 workers paying into the system to support each beneficiary.

Second, the net savings rate of the country has dropped dramatically—by as much as 50 percent over the last 30 years—which places even greater pressure on Social Security as a major source of retirement income for an aging population.

The fact of the matter is, it will be extremely difficult for many Baby Boomers to increase their savings rate in order to better prepare for their own retirements. Baby Boomers are also known as the "sandwich generation." At the same time that many boomers are struggling to afford the ever-increasing costs of a college education for their children, they are also assuming the added burdens and costs associated with caring for their aging parents.

Therefore, I commend the Chairman for calling this hearing to examine the challenges to both public and private retirement systems posed by the impending retirement of the baby boom generation. I also look forward to hearing testimony from our expert witnesses, who I hope will give us some guidance about what we as a Nation can do to ensure some measure of retirement income and health security for the millions of Americans who were born between 1946 and 1964.

PREPARED STATEMENT OF SENATOR JOHN GLENN

Mr. Chairman, I commend you for convening today's hearing of the Senate Special Committee on Aging to plan ahead for the aging of our nation's 75 million Baby Boomers.

This hearing fulfills an important role of the Aging Committee—to study issues that will affect future generations of older Americans, not just those who are already in their senior years.

We know that our society is aging due to our success in greatly increasing life expectancy. We want to make sure that these additional years are ones in which older Americans can be productive, healthy and economically secure.

In order to insure that this is the case for the Baby Boomers when they retire, now is the time to plan ahead and make the necessary changes in our Social Security, Medicare and private retirement programs that will keep up with our demographic changes. We must look at ways of increasing our research commitment in order to combat the diseases that more likely afflict us as we age, and at home- and community-based programs that help older people remain independent.

By working together to meet the challenges presented by our growing elderly population, we can benefit today's elderly as well as their children and grandchildren who will be tomorrow's older Americans.

I look forward to hearing from today's expert witnesses and thank you in advance for being with us today.

Before we begin, I would like to take a minute to congratulate Senator Grassley, Chairman of the Senate Special Committee on Aging, and Senator Breaux, our Ranking Democratic Member, on their new positions; and to again commend you for your leadership in holding this important hearing.

PREPARED STATEMENT OF SENATOR LARRY E. CRAIG

Mr. Chairman, I want to thank you for holding this hearing today to address the imminent challenges that will face the aging Baby Boomer population as they approach retirement age. I have a personal interest in this particular issue and can associate with the legislative impact on this generation because I am on the leading edge of the baby boom generation. In addition, my own State of Idaho is a place where many people choose to live during their retirement years. As the baby boom population begins to retire, special problems will emerge and it is very important that we address these issues now.

The impending swell of retired Baby Boomers has raised concern that both public and private resources will be inadequate to provide for their financial well-being in retirement. Ultimately, changes that take place over the next couple of decades in the national economy, workplace, and family will determine how the Baby Boomers will fare in retirement.

In less than two decades, the first wave of Baby Boomers will retire. Many people are concerned that boomers will not do so well financially in retirement. We need to take the appropriate measures now to see that this does not happen. In doing so, we should look at how the incomes and wealth of Baby Boomers compare with those of their parents as young adults, assess the financial health of current retirees as a basis for comparison, and discuss factors that will influence the financial well-being of Baby Boomers in retirement. We can glean some insight about future problems by looking at present circumstances.

We know that the Government supported programs currently available are not sustainable over the long term. According to the Congressional Budget Office current baseline projections, Federal spending for Social Security and Medicare will approach the $1 trillion mark within a decade. This will be disastrous.

The public programs used by older Americans today provide substantial income and health security to their participants. It has been said that by year 2010, Medicare and Social Security will not be able to pay the benefits they pay today. How we can assure Baby Boomer access to equal benefits is a critical question for our panels today.

Over the last couple of decades, Congress has tried to address some of the concerns that face people born between the years of 1946 and 1964. Despite our best intentions, we haven't yet resolved the impending crisis, so I am very glad to see that the Special Committee on Aging is holding this hearing today. It is important that we do all we can to assure Baby Boomer health.

Prepared Statement of Senator Conrad Burns

Thank you, Chairman Grassley. I appreciate your holding this hearing today. In a few years we will be faced with major policy challenges as the number of retirees skyrocket. It is certainly not too early to begin addressing these issues and try to develop a road map for where we need to go and how we are going to get there.

The current problems facing Medicare are well known. In the short-term, the Hospital Insurance Trust Fund faces bankruptcy in 2001. Now, this demands immediate action, and I am among those who favor structural reforms of the program in a way that will benefit seniors. But what worries me is that some believe we can make a short-term fix to the program to give it a few extra years of solvency and then drop the matter. This is not the answer. As our witnesses will point out, we must begin to address the long-term issues affecting Medicare and Social Security. Any improvements we make must reflect the demographics of the next century, when the worker to retiree ratio will fall to 2 to 1, from 3.2 to 1 today.

We also know that the long-term, 75-year projection for Social Security Old Age Survivors Insurance shows that the trust fund will be unable to pay full benefits. In 2031, the trust fund will be empty, and its annual revenues will only support 75 percent of its obligations. I've been around Washington long enough to know that things generally get done at the last second, but we simply cannot wait until the eve of bankruptcy to solve Social Security's financing problems. The longer it takes to make the necessary adjustments, the more drastic those adjustments will have to be.

Social Security, while important, provides a fraction of what the retiree earned when working. If the Baby Boomers are to have a secure retirement, they will need income from private retirement plans and savings. Defined-contribution plans such as 401(k)s and the Federal Thrift Savings Plan are increasingly common, but are workers savings enough? Reports are that they are not saving enough, despite the favorable tax treatment available. I was very pleased that Congress last year created the Savings Incentive Match Plan for Employees, or SIMPLE, which allows small businesses to establish IRA's and 401(k)s for their employees without being subject to the rules and regulations of larger plans. The SIMPLE plans will greatly benefit small businesses and their employees.

I look forward to the testimony of our distinguished witnesses today.

Prepared Statement of Senator Harry Reid

Thank you Mr. Chairman. I would like to extend my personal welcome to our distinguished panel this morning. I would also like to state from the outset how pleased I am to be serving on this committee once again and I look forward to the leadership you and Senator Breaux will provide. In my view, there has not been a more critical period requiring the work of our committee on behalf of the Nation's elderly than the present time.

I believe we are entering an era of generational politics that could ultimately redefine what it means to grow old, or be old, in America. While I am concerned about the tone of some of the rhetoric to date, I welcome the opportunity to participate in this discussion as I feel very strongly that how we treat the oldest members of our society is a true reflection on our character as a Nation. It is imperative that our committee actively engage in this debate to ensure we set the proper course for how we treat our Nation's senior citizens. Without question, this is the mandate of our committee.

Fifty years ago, the United States encountered the post-war baby boom without enough pediatricians, schools, jobs, or housing. We rose up to the challenge then, and I am convinced we will do so again when today's Baby Boomers reach retirement age.

As we will hear today, this country is on the brink of a unique demographic transformation. By the year 2050, the number of persons 65 years and older will more than double to 78.9 million. In 1990, 1 out of every 8 Americans were over the age of 65. In 2050, 1 in 5 will hold this honor. While, this demographic shift presents challenges for policy makers concerned with the well-being of the elderly in the 21st century, it also presents unique opportunities. How can we continue to support the current group of retirees and, at the same time, ensure equity in our retirement support of the baby boom generation and the generations that will follow?

There are some politicians, scholars, and activists who have taken a doomsday approach to the challenges presented by an aging America. While I agree there are certainly some very real concerns that we have to address in dealing with this shift in demographics, I believe there are numerous opportunities that, if we are wise enough to embrace, will add significantly to our preparedness in meeting this challenge. Mr. Chairman, now is the time for vision and an honest pursuit of opportunities. It is not a time for painting a future of gloom and doom for the seniors of today and tomorrow, where the only answer appears to be reform for reform's sake. There is room at the policy table for everyone, young and old alike, as we forge the policies that will guide how we treat older American's in the 21st century.

Mr. Chairman, we have adapted to demographic shifts in the past and I am confident we will adapt in the future. The fact that people are living longer is something in which we should take tremendous pride. It is perhaps one of the greatest American accomplishments in the 20th century. Most Americans can expect to live 25 percent of their lives after the age of 65. How wonderful for grandchildren to be able to enjoy a long and fruitful relationship with their grandparents!

As we plan for the future, we must begin by destroying stereotypes and misconceptions about the elderly and the aging process which, unfortunately, are all too prevalent today. First, we must debunk the myth that all seniors are well-off. In fact, Social Security was the major source of income (providing at least 50 percent of total income) for 66 percent of the beneficiary units, and it was the only source of income for 16 percent. In 1994, more than two-fifths of the aged were kept out of poverty by their Social Security benefits. Overall, 12 percent of the aged were poor; without Social Security, the total poverty rate would have been 54 percent.

We must look beyond the issues of Social Security and Medicare and look at all areas that affect the well-being of seniors. For example, we must encourage research and must put our money where our mouths are. Increased funding for research will reduce the demand for costly health care in the years to come. With our over 65 population doubling, this is vital if we are to constrain growth in health care expenditures.

We must take proactive steps to address the critical shortage of geriatricians in this country. By taking these steps now, we will only enhance our readiness for the imminent demographic shift. At a time when we should be increasing our funding for geriatric education centers and fellowships, and enhancing our training of new and current practitioners who serve older Americans, we are in fact moving in the opposite direction. Mr. Chairman, as we brace for the rapid growth in our senior population, this is not the time for shortsightedness.

The 1995 White House Conference on Aging stated, "Many older persons possess wisdom and experience that can benefit younger generations. The talents and experiences of older individuals represent a valuable community resource which should be developed and more widely shared with the local community." I firmly believe that whatever we ultimately opt to do legislatively to cope with the coming demographic shift, I hope it will entail a complete rethinking of how we treat our Nation's elderly and the role we actively promote through our policy. I would suggest that our approach must emphasize continued activity and involvement versus the inactivity and isolation that oftentimes accompanies retirement today.

Some say that the Baby Boomers will be more financially prepared for retirement than any other past generation. The Baby Boomers have already accumulated more savings and pension funds than any other generation which preceded them, and their personal savings rate is on the increase. This signifies that the retirees of tomorrow may be better equipped financially to manage their retirements, and our government programs need to take this into consideration as we chart the course for the future. Any discussions of reform must take this factor into consideration. We must focus on pensions and savings and not deal exclusively with Social Security and Medicare as if they alone will provide the answer for the future. If all the burden is placed on these programs, without consideration of the whole package, I'm concerned we will have a partial, and not a complete, remedy.

In my home State of Nevada, we have an exploding senior population. Between 1990 and 1993, the senior population in Nevada grew by 22 percent (the highest in the Nation). Hence, I realize the importance of availability and access to opportunities for continued productivity and employment of middle-aged and older individuals who want or need to work.

We must not tolerate those that choose to categorize the growing numbers of aging persons in this country as a liability, but rather ensure our seniors are viewed as an asset that warrants our continued investment. We must work to protect the rights and benefits of our seniors and look for every new opportunity. We owe it to our children, and their children, to make certain that those resources they entrust to us are protected and available when they will be needed and also to ensure that their health and income security is adequately provided for through a mixture of public, private, and personal means.

Yes, Mr. Chairman, Social Security and Medicare's financing mechanisms must be adapted to accommodate Baby Boomers as they retire—just as our educational system expanded when this same group reached school age and our health care industry grew to address their medical needs. We did it then, and I am confident we will do it now.

I look forward to the testimony of our distinguished panel this morning. This hearing will provide an excellent overview of what our committee must consider during the 105th Congress. Thank you, Mr. Chairman.

PREPARED STATEMENT OF SENATOR RICHARD C. SHELBY

Mr. Chairman, I am grateful for the opportunity to share my views with the Committee regarding the impact of retiring Baby Boomers on Federal programs affecting the elderly. I applaud you for your leadership in this area and for holding the first hearing of the Aging Committee in the 105th Congress on this issue.

Undoubtedly, the two largest Federal programs affecting the elderly are Social Security and Medicare. Currently more than 43 million Americans receive Social Security benefits, and about 38 million Americans are enrolled in the Medicare Program.

However, these two programs are facing different sets of problems. Medicare is in serious trouble right now. Its problems are not primarily a result of the coming retirement of the massive baby boom generation, although that will certainly compound the problems. Rather, Medicare has structural problems that need to be repaired immediately. The Part A Hospital Trust Fund began to run deficits last year, and it will be completely bankrupt in a few short years, unless action is taken. Otherwise, Medicare will not be around for the Baby Boomers. The solutions to the Medicare problems will need to go beyond dealing with the baby boom issue, and will need to include reforms that control health care costs, increase competition, and address the issues of waste and fraud.

Social Security, on the other hand, is actually running surpluses right now, but once the baby boom generation retires, Social Security will be in worse shape than Medicare is today. Unlike Medicare, the problems facing Social Security are primarily a result of the demographics of the baby boom generation. Since, Social Security is such a large program—the largest item in the Federal budget—if we don't reform the program, it will literally bankrupt the Nation.

Since the focus of this hearing is on the impact of retiring Baby Boomers, I want to focus the rest of my statement on the need to reform Social Security. The bottom line is that if we don't take action to save the Social Security system for the long-term, it will not be there for those who have faithfully made contributions all of their lives and are counting on Social Security for their retirement.

The retirement of the baby boom generation presents several problems for the Social Security system. First, the number of people on Social Security will increase rapidly. In 1995, about 24 million people were over age 70, but when the Baby Boomers retire, there will be 48 million people over age 70—about twice as many as today.

Second, people will stay on Social Security for a longer period of time. When Social Security was first created, the average person reaching retirement age lived an additional 13 years. But, by 2025, the time the Baby Boomers are retiring, life expectancy for people reaching the age of 65 will be an additional 19 years past retirement age. While this is definitely a positive trend in that people are living longer healthier lives, it will present real problems for the Social Security system as future retirees collect benefits for a longer period of time.

Third, while we have an increasing number of people in the system who are living longer, they will be supported by fewer workers. In 1940, there were 42 workers for each Social Security beneficiary. Today, there are only 3 workers for every beneficiary, and by 2030 that number will fall to 2 workers for every beneficiary. Thus, the coming retirement of the baby boom generation will present substantial problems to the Social Security system.

Some people have suggested that the best solution is to raise taxes. However, since the payroll tax was first levied in 1937, Congress has raised the various tax rates more than twenty times. The payroll tax has grown from 2 percent to 15.3 percent. Yet, this has not solved any of the long term problems with the system.

If no other policy changes are made, payroll taxes would have to increase to 24.6 percent by 2030 to support the Medicare and Social Security Programs. This would be devastating to the average American. If the payroll tax was increased to 24.6 percent and all of the other Federal, State and local taxes remained the same, the typical two-income American family would have to surrender about 44 percent of their income to the government. There is no question that the American people would riot in the streets if the government tried to tax them this heavily. Raising taxes is simply not the answer.

Others have suggested slowing down the projected growth in Social Security benefits or allowing workers to contribute a portion of their payroll taxes into private accounts which could be invested in low-risk bonds or stocks. Since the private markets have a greater rate of return than government bonds, it makes sense to take advantage of that difference. However, any proposal to allow private investment must put the individual, not the government, in charge of how the contributions are invested. I will look forward to the testimony of our witnesses in these areas.

Again, Mr. Chairman, I thank you for your leadership in this area and for holding this hearing today, and I will look forward to working with you in the future to help ensure that both Medicare and Social Security are placed on solid financial ground and are equipped to handle the coming retirement of the baby boom generation.

PREPARED STATEMENT OF SENATOR RUSS FEINGOLD

Mr. Chairman, first let me congratulate you and the ranking member for putting together a superb hearing with outstanding witnesses. Today's hearing is very much in the bipartisan tradition of this committee, and I am pleased to see the committee get off to a particularly strong start this session.

The topic of today's hearing covers some of the most important policy questions Congress faces over the next few years, and I very much look forward to hearing from our witnesses on these issues.

A particular interest of mine has been the growing pressure on the Nation's long-term care system which will only increase as the Baby Boomers age. This demographic force cannot be stopped, and unless we make significant reforms to our long-term care system, taxpayers will face mushrooming long-term care costs, and consumers will be increasingly constrained in the choices available to them.

In the last Congress, we enacted substantial tax subsidies for those individuals who could afford private long-term care insurance. Certainly, private long-term care insurance can be part of the answer, but only a part. For the majority of seniors, private long-term care insurance is simply not affordable. For those seniors, the only help currently available is through Medicaid, a program which often requires seniors to spend the bulk of a lifetime's savings before they can receive assistance. Even then, their choices are frequently limited to expensive institutional care.

We need to enact genuine long-term care reform that can provide home and community-based alternatives to institutional care, and that feature flexible, consumer-oriented, and consumer-directed services. A great flaw of the current long-term care system is that institutional care totally supplants the informal supports provided by family members and friends in home and community settings, and taxpayers end up picking up the tab. By building on the base of family support in the home, taxpayers can realize enormous savings while we help people remain in their own homes with their loved ones.

Mr. Chairman, I am also pleased to see that our witnesses will touch on the future of Social Security. I have had the opportunity to review this issue as a Member of the Senate Budget Committee, and am glad the Aging Committee is also reviewing this critical question.

Congress may be asked to consider several options regarding the structure of Social Security, but as we all examine those alternatives, one step I strongly support is to stop using the Social Security surplus to disguise the true budget deficit.

I do not single out one party or even one branch of government for this abuse. Both political parties are guilty, as are both Congress and the Executive branches, but it is a practice that must stop.

Whatever the structure of Social Security is to be, we need to rid ourselves of the addition to Social Security's surpluses if we are to ensure future retirees will have the benefits promised to them. To this end, it is not enough that we balance the so-called unified budget, we must move beyond that and balance our budgets without using Social Security.

Finally, Mr. Chairman, I want to touch on an issue that I had the chance to discuss with one of today's witnesses, Dr. Wilensky, when she appeared before the

Budget Committee. The issue is the flawed reimbursement formula currently used for Medicare managed care.

As the Chairman well knows, there is great disparity in the levels of reimbursement available to Medicare managed care providers across the Nation. Because those levels are driven by local Medicare fee-for-service costs, areas that keep their traditional Medicare costs down are effectively punished, while areas with relatively high costs in Medicare fee-for-service as rewarded. This perverse set of incentives has helped aggravate the reimbursement disparities, and this in turn has meant Medicare beneficiaries who made comparable payments into Medicare over their working lives receive vastly different benefits.

Reforming this flawed formula is one of my highest priorities in this year's budget, and I look forward to working with my colleagues on the Aging Committee in addressing this problem.

Mr. Chairman, thank you again for convening this excellent hearing. It is clear that you and our new Ranking Member are continuing the proud bipartisan tradition of the Aging Committee.

PREPARED STATEMENT OF SENATOR JOHN WARNER

Mr. Chairman, I am pleased to join in this morning's hearing as the committee examines the major challenges to public and private retirement programs posed by the impending retirement of the baby boom generation. Our goal is to identify what we can do to assure that their health and income security needs are met.

The Medicare Part A Hospitalization Trust Fund lost money in 1996 for the first time since 1972. According to the Medicare trustees, Medicare will have fully utilized its surplus reserves and will be unable to pay hospital bills for beneficiaries beginning in only 4 years, in the year 2001.

I remember clearly that the Social Security Reform Amendments of 1983 were finally signed into law just 6 weeks prior to the bankruptcy of the Old Age, Survivors and Disability Insurance (OASDI) Trust Fund. At that time, we had the benefit or recommendations from the Bipartisan Greenspan Commission to save Social Security, appointed by President Ronald Reagan.

The Nation's Social Security System, serving 43 million retired and disabled Americans, is currently in excellent fiscal condition. In 1983, Congress passed the landmark Social Security Reform Act. That historic measure, based on the recommendations of President Ronald Reagan's Bipartisan Commission, restored solvency to the Social Security Trust funds which were then on the brink of bankruptcy. The program is now fully funded, well into the next century, until the year 2029.

I think it would be in all of our interests to go through a similar process with Medicare. We should appoint a bipartisan commission, have hearings across the Nation and hammer out the best reform plan possible.

The sooner these difficult reforms can be made, the baby boom generation will have time to adjust and plan their savings, investments, and pension programs in order to achieve some level of income security in their retirement years. The average life expectancy has increased, so it is more important than ever to ensure that Baby Boomers are monetarily prepared for retirement.

I would also like to take a moment to pay my special regards to Dr. Gail Wilensky. In 1994, at the height of the debate on national health reform, Gail assisted me greatly by participating in the health care forum I held in Norfolk, VA. Then, as now, I look to Gail Wilensky for advice and direction in all matters concerning the welfare benefits of older Americans.

Mr. Chairman, I look forward with anticipation to reviewing the results of today's findings into what we as a Nation can do to assure Baby Boomers' health and income security in retirement.

Senator COLLINS. Thank you. I'll just ask a couple of questions. This was a very fascinating presentation and it's very helpful to us.

Your survey reveals that many of the Baby Boomers are very skeptical about whether Social Security is going to meet their needs. Yet, I was curious whether your surveys indicated that Baby Boomers are taking any action on their own to ensure their financial security when they retire. Are they saving more than the previous generation? Are they planning for their retirement years?

Ms. HOCHSTEIN. On what they're actually doing, I'm not the most qualified to speak of. But in terms of their attitudes, they certainly want now to be perceived as doing a lot. There is this general trend in our society to taking more personal responsibility.

There is also a trend among Baby Boomers to be more focused on the future. In fact, talking about one's investments and letting other people know that you are taking responsibility for your retirement is a major Baby Boomer, you might say, status symbol. It's something that's very, very important for them to get out to other people.

The actual numbers on how well they're doing I'm not sure of, although it's said that it's part of what's feeding the Wall Street activity right now. What's important for us to understand in terms of the attitudes and values that are going to shape response to policy options in the long run is that there's a strong belief that they should be doing it, and a hunger to be able to do it. But as we heard earlier this morning, there are many now who can't do it in terms of income constraint.

So it is at least a hope, if not a reality.

Senator COLLINS. My second question deals with the fact that Americans are living longer than ever before. An expert at the Urban Institute has observed that people are now retiring almost two decades before they're dying and that obviously raises questions of whether society is wasting a tremendous resource as well as the obvious financial implications.

Was there any recognition among those surveyed that they may have to, or indeed may want to, work longer, extend their working lives, either by staying in their current jobs longer, or perhaps considering a second career?

Ms. HOCHSTEIN. In the focus group discussions this question comes up a lot. There are a number of different patterns that we see emerging. One within the Baby Boomer community in particular, but also in the pre-retireds, 50 to 64, one pattern is the, I have no choice, I'm going to have to work, because there's not going to be anything there for me so that I can retire.

But another pattern is a desire not so much to continue in one's existing area of work but to finally do the things I'm interested in doing. So there is, particularly, among Baby Boomers a sense that work is part of the source of satisfaction from life. But work I want to do, not necessarily the kind of work that I've been doing in the past.

I think that Baby Boomers, from a lot of other research we've done as well, see some work, some productivity, if you will, perhaps in different forms than they are currently doing as part of their lives forever. But still, the question of financial security, of health security in particular, in their older years, is not answered by the idea that they're going to perhaps choose to do some work.

Senator COLLINS. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Reid, and when he's done in 5 minutes, then I'll dismiss this panel and have the next one.

Go ahead, Senator Reid.

Senator REID. I told Senator Breaux as he was leaving that I was going to say nice things about him when he was gone. I think this has been an excellent hearing, and I hope this portends the future hearings of this committee. This has been very substantive.

The CHAIRMAN. I hope we can do that, yes. It's our intention.

Senator REID. I know both of you and I know you'll work very hard to make sure that's the case.

I apologize to the next panel, I was hoping that I would be able to listen to the rest of this very excellent hearing. I'm not going to be able to do that, and I appreciate their patience, also. We talked about waste, fraud and abuse not handling the program, but of course, it's still something we need to address. We spend approximately $200 billion a year, as I understand, on Medicare. If the figure of waste, fraud and abuse is from 3 percent to 10 percent, if it is 10 percent, that's $20 billion a year, which we know we can't completely eliminate, but if we could eliminate half of it, that would be $10 billion. That's a lot of money.

The CHAIRMAN. For the integrity of the program as much as saving the money.

Senator REID. Right. So it's something we have to work on, recognizing it's not going to solve all the problems.

There's a new program the Social Security Administration has implemented, which begins sending each worker within the next 5 years a personal earnings and benefit statement. Do you think this will help change the attitudes in your charts, if people know actually what they have in the program?

The statistics are quite revealing. I have the data here, for workers who earned average wages and retired in 1980 at age 65 it took 2.8 years to recover the value of their Social Security payroll taxes plus interest. For their counterparts who retired at age 65 in 1996, it will take 14.3 years for them to receive their money. For those retiring in 2025, it will take 23.3 years.

So if this information is given to the recipients, don't you think you would have the ability to change your charts?

Ms. HOCHSTEIN. Yes. Our general learning from all of this research is the incredible importance of information, particularly the kind of information that people can use as their homework on thinking about their own futures, taking on the responsibility for planning for their futures. We know from the research also that they're, they don't always get it right, that they're not that smart about how these things work, not that educated yet.

So I would argue that anything we can do to get information out there, including this, is a very, very positive step. The more, and this is a general factor in our climate today, the more information people have, particularly Baby Boomers, the more in control they feel, the less hostile and cynical they are. The information is really a very central need for people, particularly the kind of information that helps them sort out their own lives.

Senator REID. So I would think the Social Security Administration should accelerate this program they've implemented. I think the more we can do, as has already been mentioned here, to teach the people who are Social Security recipients today and will be in the future, that we're not going to save the program by eliminating fraud, waste and abuse the better off we will be. We'll help the program. But in reality, we have to make some of the choices that we were talking about in this earlier panel.

Ms. HOCHSTEIN. May I add one cautionary note about, just thinking about all the results of the research and what we know; as Baby Boomers, in particular, learn the realities of, for example, how much they probably will receive, there is this issue of very high boomer expectations about everything in life. So that it may contribute to their sense of, is this all there is, it's not going to be enough. So we don't know what direction it will push opinion. But there's no doubt that information helps change opinion.

Senator REID. There's no dispute, I'm sure, that accurate information helps people arrive at decisions, whether they think the program is good or bad, they'll at least have accurate information. Right now, there's no information. Most people are just basing it on the same, as has been indicated here, that Elvis is out there wandering around some place, right?

Ms. HOCHSTEIN. Right.

Senator REID. You're not saying he's wandering around, are you?

Ms. HOCHSTEIN. No, I'm not saying he's wandering around.

The CHAIRMAN. Thank you, Senator.

Thank you, Madelyn. We appreciate it very much.

Ms. HOCHSTEIN. You're welcome.

The CHAIRMAN. It's my pleasure to welcome to the table our final panel, Dr. Barry Bosworth, senior fellow in the Economic Studies Program at Brookings here in Washington. Also, Ms. Olivia Mitchell, professor of Insurance and Risk Management, Wharton School, University of Pennsylvania. Then Dr. Robert Butler, director of International Longevity Center and professor of Geriatrics, Mount Sinai Medical Center. Finally, Mr. James Towey, president and founder of the Commission on Aging with Dignity, in Tallahassee, FL.

All of you folks are, particularly Dr. Bosworth, very familiar to members of Congress. It seems you appear every day up here. Maybe you don't, but we appreciate very much your coming back, and other people, to participate.

So would you please start, Mr. Bosworth.

STATEMENT OF BARRY BOSWORTH, SENIOR FELLOW, ECONOMIC STUDIES, BROOKINGS INSTITUTION

Mr. BOSWORTH. Thank you, Mr. Chairman.

I have a longer testimony which I'd like to just submit for the record and quickly summarize.

The CHAIRMAN. Yes, all of you will have your entire statement put in the record and we'd appreciate it if you could deliver your summary in 5 minutes. Please go ahead.

Mr. BOSWORTH. As shown in the table that accompanies my testimony, there has been a dramatic increase in public spending on the aged. An earlier panel today discussed some of the dimensions of the cost problems that these programs face.

If you just take the existing three programs for the aged, Social Security, Medicare, and Medicaid, the cost of those programs has doubled over the last quarter century, and it will double again in the next quarter century to 15 percent of the GDP, the Nation's output, by 2025.

In evaluating these costs, I think it's also important not to focus too much on the cost of Social Security. Despite all the discussion on Social Security, it seems to me the reality is the problems with Social Security itself are very minor, relatively easy to fix. It's not Social Security alone that creates the financing dilemma. It's when you take all the programs for the aged together, when you combine Social Security with Medicare that you get concerned about whether or not these programs are financable in the future.

For example, Medicare will soon surpass Social Security in size, and it is going to encounter far larger financing problems.

I think we like to talk about Social Security reform because a lot of the options seem quite attractive to people in the private sector. We don't like to talk about Medicare reform, because most of the options for policy are not very attractive.

But I'm going to follow standard practice for most of what I have to say and focus on the Social Security aspects, and with somewhat less on Medicare. There's a whole long list today of different proposals that people have come forth with, how to try to solve the problems of these programs. I think you can group them into three categories for policy, cut some future benefits, increases in taxes, or a third option that's only now beginning to receive a lot of attention, which is advance funding of a portion of the future costs.

The first two can be undertaken within the confines of the current system. But some version of the third, advance funding, would require rather drastic changes in the structure of the retirement system. The list of potential changes in the first two categories is by now quite well developed. Most of the debate is over their distributional and incentive consequences.

They include simple, straightforward reductions in the initial benefit, a rise in the retirement age, means testing, and recently, a reduction in the indexation of benefits for inflation. In these brief remarks, let me highlight only two of them.

First, I believe that most economists would view with alarm suggestions that we go to means testing and Social Security benefits. Because it would further erode any incentives for saving in a society in which most Americans don't save as it is. Imagine, for example, two workers with the same income. One decides to have a good time, takes their wage, goes out and spends the entire amount during their work life on consumption. The second one decides to be prudent and set aside a portion of their earnings for retirement needs.

Under a system of means testing, the first person is rewarded in retirement. They'll get a full Social Security benefit, because they don't have anything else. The person who saved for retirement will be punished for having saved by being reduced in their Social Security benefits.

It is important in this debate over means testing to understand that the current system is already extremely means tested. A low wage worker will get back a return on their investment about twice that of a high wage worker. The difference is, they're means tested over their lifetime income, so that there is no incentive to try to spend all the money before you get to retirement, as there would be under a means testing system based on retirement income, or income at time of retirement.

Second, because of recent interest in the issue of indexation, it's worth considering the implications of reducing the COLA adjustments. This is a proposal that's been favored recently by Alan Greenspan and some members of the Boskin Commission. The proposal would eliminate nearly two-thirds of the current actuarial deficit in Social Security by simply reducing the annual increment to the COLA by 1 percent per year.

But the impact on the system begins to plateau after about 15 years, and would have little additional long term effect beyond that. That's because the proposal has no impact at all on the benefits of a new retiree in the future. Their benefits are determined by the history of past wages. It has nothing to do with the CPI. The CPI determines the amount of annual increase they get after they retire each year to keep up with increases in the cost of living.

After 20 years, say at age 83, the benefit would be reduced compared to the current program by about one-fourth. That's a rather substantial reduction in the benefit on average for retirees, because people begin to die off fairly rapidly in their 80's, the average reduction in the benefit under the proposal would in equilibrium be somewhere around 12 to 15 percent.

Furthermore, I think one important aspect that hasn't gotten a lot of attention is that the impact on retirees of different ages is highly uneven. This is highlighted in a figure that is attached to my testimony, in which I just went through and simulated the effect of people in the year 1995 if this system had existed.

What would happen, for example, to the proportion of the population with income below the current poverty level? It would have almost no effect on change in the proportion of retired workers age 65 in poverty, which is currently about 10 percent.

However, the number of people over age 80 who live in poverty or below the current poverty line is currently about 18 percent in the United States. Under this proposal, that would increase to something in excess of 30 percent of the population of 80 year old retirees, would then be in poverty.

Finally, ultimately all of the discussion of benefit cuts or tax increases is only talking about distributional issues. Because all of these proposals will have absolutely no effect on the number of retired workers in the future and their needs, or the total amount of resources available to meet those needs, plus the needs of the future workers. They do nothing to change the total amount of income in the future and we're only arguing about who's going to be paid.

Young people favor a cut in the benefits, older people favor an increase in the tax. It's inherently an extraordinarily divisive argument that's not going to go very far.

I think the only true answer to this dilemma is to try to shift the discussion toward approaches that can increase the amount of resources available to future workers and future retirees, so that this is not a zero sum game. That is the major benefit of suggestions to move toward advance funding of Social Security or retirement income. By this I mean, in effect, Baby Boomers and future generations would be asked to pay an increased portion of their own retirement costs by increasing their savings during their work life.

From a strict economic perspective, the goals of a funded program can be met either through a public or a private program.

Strictly from an economic point of view, it makes absolutely no difference whether you privatize or you don't privatize. The issue of privatization is strictly a political issue of which way you think politically the program is more attractive.

I think that the most important distinctions in this debate are that, No. 1, advocates of a private system don't trust the Congress to keep its hands off the money if it was in a public fund. That's basically what it comes down to. They go by what they think is happening to the current surplus of Social Security, they believe that the public officials would simply appropriate any reserve in the retirement account and use it to finance other consumption programs in the public sector.

As representatives of those at the top of the income distribution, they would prefer to keep their funds in their own hands and under their own control, and they could then avoid any redistribution of those funds to low-wage workers, as currently exists under the Social Security system.

On the other hand, advocates of a public plan, they don't trust the advocates of the private plan to continue to support a program of income redistribution for the elderly. Yes, it's true that privatization proposals today usually have a two-tier structure, a first tier of a flat benefit amount, and a second tier of a defined contribution retirement plan.

What is the argument about in this respect? I think it is clear that once the program was enacted, the first tier would be labeled welfare and we'd argue to get rid of it. Therefore, there's no trust by advocates of the current system that a privatized system would continue to operate with redistribution to low wage workers.

Yet we must recognize that given the extremely low level of wages in the United States, low wage workers in this country cannot afford to provide for their own retirement. It is not feasible to think that low wage workers could, at given wage rates in the U.S., provide for their own retirement through some form of a savings program.

Thank you.

[The prepared statement of Mr. Bosworth follows:]

Testimony Before the Senate
Select Committee on Aging
March 6, 1997
Barry Bosworth[1]

Projections of the budgetary costs of the looming retirement of the baby-boomers have raised questions of whether America can afford to grow old. Will the current mix of retirement income and medical care for the elderly prove to be more than the country can provide. A recent projection of the Congressional Budget Office (CBO), shown in table 1, indicates that the simple continuation of existing expenditure programs would raise the share of GDP devoted to federal government programs from a current 20 percent of GDP to 24 percent by 2025, when the majority of the baby-boom generation is in retirement. If tax rates are not raised to finance that expenditure growth, it would also generate a budget deficit in excess of 9 percent of GDP. That path of spending and revenues cannot be sustained: the deficit financing would exceed plausible levels of private saving, and the budget would spiral completely out of control in subsequent decades. By 2050, interest payments on the public debt would exceed 15 percent of the nation's total income and the public debt would have soared to more than three times GDP.

That outlook is driven by three basic circumstances. First, the United States population will age rather dramatically over the next quarter century. That aging follows directly from the decline in birth rates and increased longevity that have been apparent for decades, but its effects on the economy and public budget have been delayed by the bulge of additional members in the

[1]The views expressed are those of the author and should not be attributed to the trustees, officers, or other staff members of the Brookings Institution.

workforce -- the large baby-boom cohort (those born between 1945 and 1965) plus the increase in the proportion of adult women seeking employment. The aging of the population will, however, become very evident after about 2010 when the front edge of the baby-boom cohort enters retirement.

Second, programs directed toward the elderly have grown to dominate Federal budget outlays. The three programs that are disproportionately directed toward the elderly, Social Security, Medicare, and Medicaid, doubled as a share of GDP between 1970 and 1995 to 8.3 percent despite little or no increase in the proportion of the population that was aged. In 1995, these three programs accounted for nearly one half of federal program outlays. The CBO projections suggest, if the programs are maintained in their present form, their costs will rise to 14.7 percent of GDP by 2025 or 60 percent of federal program outlays.

Third, the increase in the number of elderly is occurring at a time of sharply reduced growth in the number of persons in the workforce -- from an annual growth rate of two percent over the past three decades to only ½ percent between now and 2025. Meanwhile the number of elderly will grow at the same rate as in the past, two percent per year. This slowing of labor force growth is projected to occur even with an assumed high rate of immigration, 900 thousand per year. Thus, the oft-quoted 50 percent increase in the aged-dependency rate -- two workers per retiree, compared to three today -- is more the result of reduced growth in the number of workers than a surge in the number of retirees. Under a slightly more pessimistic variant of the Social Security projections, the U.S. labor force would actually begin to shrink by 2025.

Any long-term projections are inherently uncertain and subject to large errors, but the basic dimensions can be stated with some degree of confidence. Demographic factors alone imply roughly a 50 percent increase in federal outlays on the elderly by 2025. The rest of the cost increase comes from growth in medical-care costs per beneficiary. This is a long-standing characteristic of U.S. health care system, as per capital health care spending in both the public and private sectors has grown at an annual rate twice that of per capita GDP over the past quarter century. Indeed, the budget projections are actually optimistic in assuming that this cost per beneficiary will slow dramatically. At the same time, costs per Social Security beneficiary will decline somewhat because of a scheduled increase in the retirement age.

Despite all of the focus on increased costs of Social Security, I am not sure that I would call a rise in the share of the nation's output devoted to the program from 4.5 percent today to 6 percent in 2025 a crisis. That is less than the change in defense spending over the last five years. But, when we combine Social Security with Medicare and the nursing home portion of Medicaid, the total costs of programs for the elderly do seem unsustainable.

The fact that so much of the increased budgetary cost is associated with retirees also highlights the importance of addressing the financing problems sooner rather than later. If there is an intention to scale back the programs, and to ask the future elderly to provide for a larger portion of their own needs, they need to be aware of those changes now, when they are still young enough to adjust their own saving. Furthermore, waiting will eliminate other options and reduce the policy debate to a divisive argument over the allocation of a fixed amount of future resources between the young and the old.

The financing problems have initiated a far-reaching discussion of potential reforms, ranging from simply delaying action until a cash flow crisis necessitates benefit cuts or tax increases all the way to proposals to dismantle the public programs and replace them with private retirement and health care plans. We can, however, group the proposals for Social Security reform within three basic options. The first two are the obvious ones of benefit cuts or tax increases, they can be evaluated within the current pay-as-you-go system, and they have dominated the public discussion to date. The primary issue is structured as the division of a fixed amount of future resources between the young and the old; and the choice is evaluated in isolation from the broader question of what determines the total amount of those resources. By now, the list of potential changes is quite thoroughly developed, and the debate tends to revolve around their distributional and incentive consequences.

The third option of advance funding of a portion of the future costs involves a move away from the current pay-as-you-go system, and it adopts a more dynamic growth perspective in which today's saving can provide the future income necessary to support the consumption needs of the elderly without reducing the consumption of younger workers. The implications of this option are less thoroughly understood by the public, however; and its advocates are divided as to whether the advance funding should take place within a public or a private system.

Options Under Pay-As-You-Go

As mentioned earlier, a combination of benefit cuts and tax increases totaling about two percent of taxable payroll, or fifteen percent of benefits, would be required to bring the OASDI trust fund into actuarial balance. Furthermore, the actuarial deficit, projected over a 75-year horizon, will continue to deteriorate over time as current surplus years are replaced with future years of deficit. Thus, by 2025 the required average benefit cut would be about 40 percent.

The most straight-forward benefit reduction is to cut the primary insurance amount for all new retirees, but some proposals incorporate a disproportionate benefit reduction for high-wage workers. The effectiveness of such measures in closing the financing gap is inherently limited because the benefit formula is already very redistributional. While a disproportionate benefit reduction for workers with high lifetime wages may protect retirees near the poverty line, it would further reduce an already low return to high-wage workers, thereby increasing the labor market distortions and pressures to escape the system.

Another common proposal is to raise the normal retirement age. An increase in the retirement age from age 65 to 67, phased in over a two-decade period beginning in 2002, has already been enacted. While the normal age of retirement has remained fixed at age 65 for men since the program's inception, life expectancy at age 65 has increased 25 percent, from about 12 years in 1940 to 15 years today; and it is projected to rise by an additional 10 percent over the next 30 years. With the increase in the normal retirement age to 67, workers will still be eligible for an actuarially-reduced benefit at age 62. For a worker with the average expected life expectancy who continues to retiree at age 65, the change is equivalent to a 15 percent reduction in the PIA.

More recently, it has been suggested that the phase-in of the higher retirement age should begin immediately and the process should be extended to a retirement age of 70 rather than 67. If the normal retirement age were moved up to age 70 by 2030, it would eliminate about one half of the current actuarial deficit. If the age of early retirement was also increased in parallel to 67, the currently projected deficit would largely disappear, but it would gradually build back up in future decades. The proposal has been criticized by some on the grounds that, while life expectancies have increased, there is less evidence that the health condition of the elderly (their ability to continue working) at a given age has increased proportionately. The proposal is popular with white-collar workers with more sedentary jobs, but less acceptable to those with more physically-demanding jobs.

Another proposal, based on recent claims that the consumer price index (CPI) drastically overstates inflation, would reduce the indexation of existing benefits. It is strongly advocated by the

Chairman of theFederal Reserve and several members of the "Boskin Commission" on the CPI. This proposal would have no effect on the initial retirement benefit, but would reduce the real benefit of retirees as they age. It would eliminate about two-thirds of the actuarial deficit.

Because of recent interest in this proposal, I have included a table showing the impact of the change on incomes of retired pesons near the poverty level. In 1995, the proportion of persons with incomes below the poverty level rose from 10 percent for those aged 65-69 to 18 percent for those over age 80. If the rate of indexation had been one percent less since its introduction in the early 1970s, it would have had little effect on new retirees; but, for those retired for 20 years in 1995, benefits would re reduced by about one-fourth. The proportion of those aged 65-70 with incomes below the current poverty standard would rise by only 11 percent, but for those over 80 it would soar above 30 percent. Of coarse, the change in the CPI also would change the official measure of poverty itself -- in fact, officially poverty would cease to exist in any measureable degree in the United States.

Finally, some critics of the current system suggest imposing an explicit means test on current income, limiting benefits to those who are most in need. This proposal has a great deal of political appeal, but it is strongly opposed by most economists who fear its effects on saving incentives. The current system is already heavily means-tested, but on the basis of lifetime earnings. If the retirement benefit were to be inversely related to other income during retirement, it would act as an additional tax on retirement saving. The proposal also raises concerns about corruption of the system because it encourages retirees to shift assets to their children or to over-invest in assets, such as housing, that provide a stream of in-kind benefits. The Medicaid payment for nursing home care involves just such a means test; and, within that program, the hiding of income and assets is believed to be a severe problem.

Like OASDI, the medical programs must provide for a greatly expanded future population of beneficiaries; but in addition, they are faced with a large increase in costs per beneficiary. Furthermore, because these programs deliver a service rather than simply providing cash, there are complex issues of price and quality that are not present in the social security discussion. Much of the current policy discussion of cuts in provider payments reflects the view that the increased costs per beneficiary are the result of waste and inefficiency. Thus, large cost savings are promised with little or no deterioration in service.

Most of the research on health costs, however, concludes that the cost increases are driven by technological innovations that have broadened the range of potential medical interventions. Within a few decades, organ transplants, bypass surgery, and other major medical interventions have become commonplace. Furthermore, non-invasive diagnostic tests, such as magnetic resonance imaging, have become routine. Because they are less risky and painful, these tests are employed far more frequently than the procedures they replaced. The concentration of health care outlays on high-cost interventions also suggests that incentives to shop more wisely will have only limited effects. Similarly, proposals to move the aged into managed care plans may generate a one time reduction in the level of spending; but continuing large-scale saving are likely to involve rationing of access to the high-cost interventions.

Partial Funding

Proposals for resolving the future financing problems by some combination of benefit reductions and tax increases do not really change the basic problem: the size of the future retiree population and their needs remains the same. We are only arguing about who will pay. Suggestions to shift away from pay-as-you-go to a funded or partially funded system are fundamentally different because funding would increase the total amount of future income out of which the consumption needs of both workers and retirees are financed. The current generation would increase its saving to finance a larger portion of its own retirement. The added saving and capital formation would directly raise future capital income of retirees, but it would also increase the wages and taxes of future workers out of which the retirement benefits could be paid.

It is important to understand that such an expansion of saving could be done under public or private auspices. Publicly, the current surplus of the retirement system could be expanded, either by an increase in the contribution rate or through a reduction in current benefits, and the surplus set aside and allowed to add to national saving. Alternatively, the increased saving could take place within private retirement or pension accounts. The important issue is that the increase in retirement saving actually translate into an increase in national saving, and not be offset by reduced saving in other public or private accounts. Nor can anything be accomplished by simply shifting funds from one account to the other. Increased saving will require a sacrifice of foregone consumption, by the currently retired, current workers, or within other public programs.

How large of an increase in saving would be required to finance the future budget outlays? By 2025, program outlays of the federal government are projected to have increased by five percent of GDP, from 19 percent in 1995 to 24 percent (table 1). In order to fund those outlays at no cost to future workers, the United States would need to build up an added stock of assets, over a thirty year period, sufficient to earn income equal to those outlays. Since 1960, the real return on physical capital in the United States, net of depreciation, has averaged about 6 percent, suggesting the need to raise the capital stock by an additional 80 percent of output. In comparison, the national wealth of the United States in 1995 is estimated to have been about $19 trillion or 2.8 times GDP.

In practice, the situation is somewhat more complex. First, the expansion of capital formation, if the resources are invested in the United States, will drive down the return on both new and existing capital. Part of the decline is not a problem from a national perspective since it reflects a redistribution of income from the relatively less scarce factor, capital, to the more scarce, labor. The incremental gain to national income from an additional unit of investment, however, can be expected to gradually fall over the 30-year period, increasing the required addition to the capital stock.

The decline in the return to capital can be moderated by investing a portion of the increased capital abroad. Current national account estimates imply that U.S. residents make a return on foreign investments comparable to that available domestically. Thus, some of the decline in the rate of return could be avoided by investing in a larger global economy where the increment to capital is small. Foreign investment, however, does raise other problems. Such an investment strategy would require the United States to shift from a net current account deficit with the rest of the world to a surplus during the period of capital outflow. Such a transfer of resources would involve an initial terms of trade loss: the price of exports would need to fall and that of imports rise to accomplish the reallocation of trade flows. Thus, only some of the decline in the rate of return can be offset by access to a larger global economy.

On the other hand, not all of the increase in public outlays need be covered by saving in excess of current rates. The United States is entering an era of diminished growth in the labor force which will translate into a reduced need for additions to the capital stock. Thus, a portion of the added spending can be accommodated out of reduced baseline investment -- that is, the added needs of the elderly should be viewed against a backdrop of slowly falling domestic investment needs. As much as half of the spending needs might be obtained from lower investment needs.

Public Versus Private Funding

A partial funding of future retirement obligations could be accomplished through either a continuation of the current public programs of OASDI and Medicare, or by their conversion to private retirement plans. In each case there are questions about whether the increment to funding would really add to national saving and capital formation: would the additional retirement saving be offset by reduced saving in other accounts of the public sector or in private saving.

Publicly-managed. Advanced funding would be easiest to implement within the existing public programs because it would leave accrued benefit claims intact. It would require only some combination of an increase in the contribution rate or reduction of benefits to create a reserve, and a firm commitment to set the surplus aside from other government accounts. But, there are questions as to whether the public and their representatives would understand that the reserve could not simply be appropriated for other public programs.

A funded public program also raises questions about the purchase of private securities. From the perspective of the economic benefits to the nation, it matters little whether the reserve is invested in public or private securities. The economic benefits flow from the increased investment in real capital. If the social security fund purchased government debt, a larger proportion of private saving could go to finance investment. If the fund chose to buy private debt, more of the private saving would be used to cover the public sector budget deficit.

Investments in private securities might help in two respects, however. First, investment of the fund in private securities, as with public employee pension funds, might help distant its operation from other public programs. Most such proposals envisage that the money would be invested in large index funds that would prevent the fund managers from influencing the operations of individual corporations.

Second, if the fund restricts itself to government securities, most of the economic benefits of a high saving program will be concentrated in private incomes. The added capital formation will raise the incomes of future workers; yet, it is doubtful that they would perceive their gains as being the result of increased saving and investment by the prior generation. They will remain as opposed as today's workers to any tax increase. By raising the investment return of the fund, a mixed public-private portfolio eliminates much of the need for future tax increases.

Privatization. Public management of the retirement fund has been criticized by those who doubt that the managers' decisions would be guided solely by investment criteria. In addition, they question the assumption that the public and its representatives could be educated not to use the reserve as an offset to deficits in other government accounts. Thus, they argue for a partial privatization of the existing system by moving to a system of individual retirement accounts. A pure private system would eliminate an possibility of redistributing benefits toward low-wage workers, since each individual owns their own retirement account; but some advocates of privatization suggest that the redistributional aspect could be met with a separate scaled-down version of the current social security system. Thus, they envision a two-pillar system: a public component that provides a minimal poverty-level benefit -- perhaps a flat benefit amount or one related to number of years of participation -- and a second defined-contribution pension with no re-distributional element. Participants' funds in the individual accounts would be invested in a range of capital market assets, presumably directed by the individual contributors.

Critics of privatization are concerned that the explicit separation of the re-distributional component would result in inevitable pressures to eliminate it, much like the current opposition to welfare programs. Thus, they doubt that the program would provide adequate support for workers with low lifetime earnings. Low-wage workers may also be poorly equipped to make reasonable investment decisions.

Individual accounts also raise the problem about how to manage the conversion to annuities at time of retirement. If individuals are given the option of accepting lump-sum cash-outs, the system for providing annuities begins to encounter extreme problems of adverse selection. Thus, the price of annuities would have to rise. This is a problem not faced by a national system with mandatory conversion. It would also be necessary for the government to issue bonds indexed to the CPI in order to provide a private market means of providing indexed benefits. A large number of small individual accounts is also likely to involve an increase in the administrative costs.

Individual retirement accounts have an obvious appeal to workers in the top portion of the income distribution, and they have attracted increased political support during a period when many Americans are increasingly inclined to rely on their own individual resources and oppose the re-distributional elements of government tax and transfer programs. Most recently, the concept has been carried even further in suggesting that much of the Medicare program should be converted to individual pre-funded accounts.

Privatization does, however, encounter major transition problems in that some group of workers will have to pay twice: once for their parents retirement under the existing pay-as-you-go system and again for their own retirement fund. These costs can be spread out over several generations, but they remain substantial.

Conclusion

The expected future costs of the programs for the elderly are high; but with prudent prior planning they would be economically manageable. The greatest problem for the United States is that these future liabilities are mounting in the face of a decreased propensity for Americans to save, both publicly and privately. The most effective means of addressing the financing problem would involve a shift toward a partial funding of the retirement programs as a means of raising today's saving in anticipation of greater consumption needs in the future.

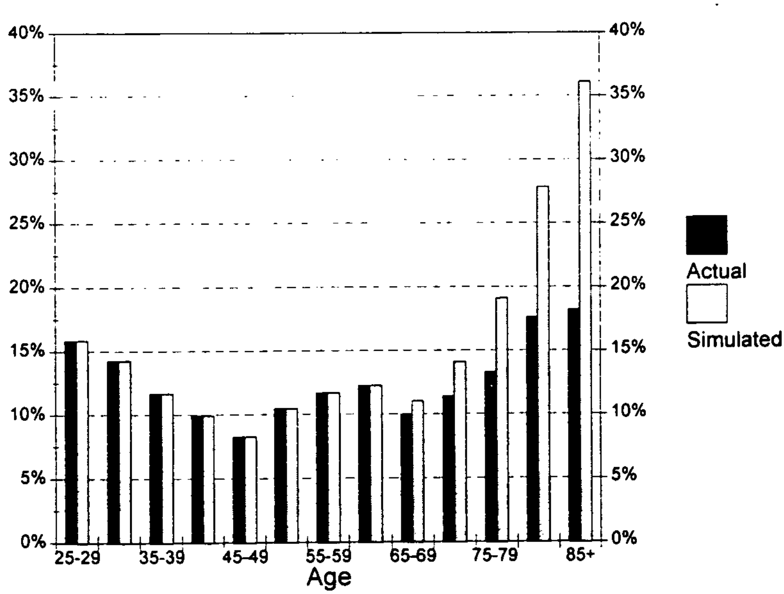
The controversial aspect of a shift to partial funding revolves around the question of whether in can be done within the current framework of a general public program in which the costs and risks are shared, or does it necessitate a shift to a private program where workers own and control their own retirement accounts. The objection to a funded public program evolves out of doubts that the increased contributions to the fund would truly be saved, add to national saving, and increase national wealth in future decades. Privatization would seem to reduce that risk in that politicians would be less inclined to perceive the private funds as a source of revenue. Thus, it is good for national saving, but its critics fear the consequences for low-wage workers.

Table 1. Projected Federal Budget Outlays and Revenues, 1960-2050
Percent of GDP

	1960	1980	1995	2010	2025	2050
Social Security (OASDI)	2.2	4.3	4.5	4.7	5.8	6.9
Medicare	0.0	1.3	2.5	4.4	6.0	8.4
Medicaid	0.0	0.5	1.3	2.4	2.9	3.8
Consumption Programs	9.7	7.7	6.3	5.0	5.0	5.0
Other Programs	3.8	6.6	4.9	4.3	4.3	4.0
Program Outlays	15.7	20.5	19.5	20.8	24.0	28.1
Interest	1.3	1.9	3.2	3.4	5.3	15.8
Total Outlays	17.0	22.4	22.6	24.2	29.3	43.9
Receipts	18.4	20.2	20.4	19.7	19.8	20.4
Budget Balance	1.4	-2.2	-2.2	-4.5	-9.5	-23.5

Source: Survey of Current Business, various issues and CBO, unpublished data, May 1996

Low-income Population by Age, Actual and Simulated, 1995
Percentage below current poverty income level



Source: Calculated from March 1996 CPS using poverty level as measure of low-income.

The CHAIRMAN. Thank you, Dr. Bosworth.

Ms. Mitchell.

STATEMENT OF OLIVIA MITCHELL, PROFESSOR OF INSURANCE AND RISK MANAGEMENT, WHARTON SCHOOL, UNIVERSITY OF PENNSYLVANIA

Ms. MITCHELL. Good morning, and thank you for including me this morning. I'm honored to be here, and I ask that my statement be included in the record.

What I would like to do is talk about some of the developments I see before us in the American labor market and some of the implications for the baby boom generation. I'd like to begin by noting the fact that Americans, of course, are living longer and working less than at any time in our history. Most experts agree that the trend to early retirement coincided with the expansion of pension benefits and Social Security benefits.

Since the mid–1980's, this move toward early retirement has abated somewhat. But the fact remains that the average American wants to, and in fact does, retire fairly early, in his or her early 60's, and if possible, even younger. In fact, when I asked my students at Wharton when they'd like to retire, they all said "mañana." [Laughter.]

But the question is what to make of this. Some people see the trend to early retirement as a problem. But a long retirement period, I think, should also be seen as something that we should be proud of as a Nation. The vast majority of older people today has achieved a relatively secure retirement through hard work, and to some extent, through the political process. Certainly if we compare the situation of the elderly today to that of the elderly 30 years ago, or the elderly almost anywhere else in the world, I think you'd prefer to be old here, if you have to be old.

As a result, I believe there will not be any dramatic realignment of retirement ages in this country absent major institutional changes. Why then do so many people worry about what the Nation will do when the Baby Boomers retire?

I think part of the concern has to do with the much publicized changes in the way the labor market is working and job market worries, of course, translate into the concern that Baby Boomers might not save as much as their parents did, or as much as they should, toward their retirement. If the job market fails to provide economic opportunities, then the retirement period might also be a shaky one.

Another reason people are concerned about the prospect of Baby Boomers in retirement has to do with developments in the employer pension area. We know that about half the civilian labor force today has a company pension, and looking forward, the problem is the perception we don't think there's going to be an increase in coverage, barring some major institutional changes in incentives.

Why is this? One explanation is that employers are backing off from offering defined benefit pension plans, which Dallas Salisbury alluded to. A big part of the reason is administrative costs. Another critical issue is that even when workers in the baby boom generation are offered a pension, frequently they turn it down. Of course, many of us would agree this is shortsighted and risky behavior.

Now, the one place there has been pension growth is in individually directed defined contribution 401(k) pensions. They offer the advantages of faster vesting, elective contributions, participant directed investments, and lump sums and loans, which we've heard about earlier today.

But this causes some concern. Contribution rates are not as high as they could be. Too many people are taking out loans. A lot of the 401(k) assets turn out to be invested in employer stock and people may not be making the right asset allocation decisions on how to invest their money.

Nevertheless, I think the 401(k) market is a bright spot in the overall picture of Baby Boomer preparedness for retirement.

Looking ahead, what can we predict about how well today's workers will do when they hit retirement? An initial set of lessons is available from a new longitudinal data set known as the Health and Retirement Study. This is a large survey of about 12,000 Americans begun in 1992, continued through time. This has been funded by the National Institute on Aging, with support from various Government agencies. This survey of older Americans shows that people on the verge of retirement today have saved much less than they need to be comfortable in retirement.

Our projections, in fact, show that the typical older couple will have to save one quarter of its gross annual income between now and 10 years from now in order to be able to maintain desired consumption levels and retirement.

Let me turn it around. If older Americans today don't save dramatically more, the median older household has enough liquid wealth, or will have enough liquid wealth within 10 years, to generate the princely sum of $5,500 per year in retirement, not counting the house or the retirement pension. Unfortunately, if you add the house and add the pension, you get about up to an annual value of $15,000 per household per year in retirement.

This is more than the poverty line but it's not enough to guarantee economic security for the golden years. This is the situation the median household will find itself in. This means that half the older population will be doing worse, and those most likely in very serious straits will probably be the low-paid groups, namely Blacks and Hispanics.

These facts, of course, highlight the point we've heard made today, that a key determinant of older Americans' future well-being will be Social Security. I co-chaired a panel recently for the Advisory Council, and we had a number of reform options. Rather than taking time to reiterate those, since I discuss them in my testimony, I would simply enunciate a couple of points.

One is that, I think everybody agrees that Social Security has to be changed to achieve solvency, and the sooner the better. The fact is, the changes have to be implemented soon. But the legislation needs to be passed soon, so that people can build this into their retirement planning and their savings plans.

Second, if you do it sooner then this reduces the notch problem and the perception of inequities across different cohorts being treated differently. I make the point also that we would all benefit from more open discussions about retirement income policy. We ought to have, for example, the Social Security Administration make available to the policy and research community the kinds of actuarial and economic models that are being used to do these forecasts.

I also believe it's essential to support continued data collection and analysis facilitated by the health and retirement studies mentioned earlier.

There are a few other areas I think we could begin focusing on. One is, of course, as people spend longer and longer in retirement, we need to recognize that we should invest in ourselves early to achieve a successful retirement period. Your committee, I think, can do a great service by integrating this perspective into all policy discussions.

We need to invest not only in financial issues, we need to think about our health. When I go to aerobics, or try to, a couple times a week, I believe that this is an investment in my old age. We need to think about investment in our intellectual capabilities; training and education should be a lifelong exercise. We must invest in our families; perhaps family investment now will help us in our old age and the same with our communities.

Delaying retirement is probably likely to be the least disruptive way for most older Americans to improve their prospects for old age. For some, of course, poor health will be a problem. But the critical task will be to make delayed retirement more appealing, while taking account of those who cannot.

We also need to do more to build a national saving for retirement program. I believe it would be useful to limit access to peoples' retirement assets while they're still young, make it harder to get loans and lump sums from their retirement accounts.

Also, it seems there's evidence that employers can do a good job educating their pension participants into saving more, investing more sensibly.

Finally, I think your committee could do much to launch a thorough review of the tax rules under which employer pensions operate. There's a disconnect between private pensions, public pensions, Social Security rules and the tax code. I think regulations could be streamlined to make it possible and to make it enticing to save more for retirement.

In closing, I would reiterate that retirement has become an attractive and successful stage in the life cycle for millions of Americans. Pensions and Social Security have been instrumental in this process.

But savings shortfalls that we're predicting now for the baby boom generation are of concern. I commend your committee's interest and attention to this issue, and I welcome further discussion.

Thank you.

[The prepared statement of Ms. Mitchell follows:]

Testimony by Olivia S. Mitchell[1]
before the Senate Special Committee on Aging

I am honored to be invited to testify before this Committee on what we can do as a nation to ensure that all Americans enjoy health and income security in retirement. I appear before you in several capacities. First, I am a professor of Insurance and Risk Management at the Wharton School of the University of Pennsylvania, with a specialization in retirement security. Second, I recently co-chaired the Technical Panel on Trends and Issues in Retirement Saving, a group established by the Social Security Advisory Council. In some of my remarks today I will be drawing on the conclusions reached in that Panel's final report (available on the internet at www.ssa.gov). Finally, I appear as a member of that most influential and rapidly aging group, the baby boom generation.

Given my background, I appreciate the opportunity to consider a range of issues pertinent to this Committee's work. I will begin by highlighting important developments in labor markets, pensions, and saving patterns of older Americans, and then I will talk about implications for the well-being of the elderly. I will conclude by touching on a few key issues that I would hope your Committee can devote attention to in the next year or two.

Work and Retirement Patterns

I begin by noting the fact that Americans are living longer and working less than at any other time in our history. Work rates among older Americans (especially men) have been falling since the 1940s. Most experts agree that this trend to early retirement coincided with expansion of retirement benefits under both social security and employer pension plans. Since the mid-1980s, the move toward early retirement has abated somewhat, but the fact remains: the average American wants to and does retire early – in his or her early 60's and if possible, even younger.

Some see this trend to early retirement as a problem, one that must be stopped at all costs because of the large productivity loss sustained when older Americans drop out of the workforce. Others emphasize the cost of supporting non-employed people for two and three decades in retirement. My perspective is that there is certainly room for concern, particularly regarding the financing of the long retirement period. I will return to this in a moment.

But a long retirement period is also something that we should be proud of as a nation. The vast majority of older people today have achieved a relatively secure retirement, through their hard work and through the political process. Certainly if we compare the situation of the elderly here to that in other countries, most would agree that if you have to grow old, this is a far better place than most. And as a result, I believe there will not be any dramatic realignment of retirement ages in this country, absent major institutional change.

Why then, do so many people worry about what the economy will do when the Baby Boomers retire? Part of the concern has to do with much-publicized changes in the American labor market. The distribution of earnings and jobs is becoming bimodal, with growth concentrated among low-skilled, low-paid service occupations, and then also among high-skilled, high-paid technical and professional occupations. This pattern of job growth is reflected in the changing American income distribution, which is becoming more unequal. Offsetting this pessimistic perspective is the fact that most of those who exited the middle class over the last decade did so by

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[1] Mitchell is International Foundation of Employee Benefit Plans Professor of Insurance & Risk Management, The Wharton School, University of Pennsylvania, and Executive Director of the Pension Research Council. All opinions are solely those of the author and not those of any institutions with which she may be affiliated.

moving up, not down. Nevertheless, job market worries translate into concern that baby boomers might not save as much as their parents did toward their retirement, if the job market fails to provide them economic returns in keeping with what they expected.

Another reason analysts are concerned about the prospects of Baby Boomers in retirement has to do with developments in the employer pension arena. About half the civilian labor force is now participating in a company pension, and going forward, it appears that coverage will not rise much more, barring some major change in incentives. One part of the story is that employers are backing off from offering defined benefit pension plans, mainly due to costs of administering them. Another critical issue is that even when workers with no plan are offered a pension, many of them turn it down. This is surely shortsighted and risky behavior. The one place that there has been pension growth is, of course, in individually-directed defined contribution (401(k) pensions offering faster vesting, elective contributions, and participant-directed investments. Yet here too there is concern, since contribution rates are not as high as they could be, and people may not be making the most sensible decisions about how to invest their money. Nonetheless, the bright spot in retirement saving is surely the 401(k) market, and I suspect this will continue in the short to medium run, barring a sudden turnaround in stock market performance.

The Economic Status of Older Americans

Where this leads us is, of course, to ask what these developments portend for the currently retired generation of Americans, as well as those on the verge of retirement? As I've said, it's far better to be old today than 30 years ago, and much of the credit for this improvement goes to federal programs – especially social security – and to the growth of employer based pensions. Around these encouraging averages, however, there remain groups vulnerable to economic distress, with poverty a larger concern for the very old, those living alone, older women, and particularly Black and Hispanic women. The financial costs associated with long-term care remain a major economic risk, even for middle- and upper-middle income Americans.

Looking ahead, what can we predict regarding how well today's workers will do in retirement? An initial set of lessons have recently become available from a new longitudinal data set known as the Health and Retirement Study. This is a large survey of almost 12,000 Americans age 51-61 in 1992 and their spouses, funded by the National Institute on Aging with support from the Social Security Administration, the US Department of Labor, and several other agencies. This nationally representative survey of older Americans shows that people on the verge of retirement today have saved much less than they need to be comfortable in retirement.

To be specific, James Moore at the Wharton School and I have found that the median household in its mid 50's falls far short of target retirement saving. Indeed, our projections show that the typical couple will need to save <u>one quarter</u> of its annual income over almost the next decade, to be able to maintain desired consumption levels in retirement. And this shortfall could be even worse, since life expectancy may increase even faster than we think in the future. Turning it around, if older Americans today do not save dramatically more, the research suggests that the median older household today has only enough liquid financial wealth to generate $5,500 per year in retirement, not counting their house or retirement pensions. Unfortunately adding housing values only boosts the annual income to $10,000 per household, and even after adding pensions, the total comes to only $15,000 per year. While this amount is more than the poverty line, it is not enough to guarantee economic security for the golden years – and this is the situation the median household is likely to find itself in. This means that half of the older population will find itself below this level as it moves into retirement. Indeed, the shortfall is serious.

Social Security Options:

These facts highlight a point that you are, no doubt, well aware of – that a key determinant of older American's future wellbeing will be what happens to the social security and pension systems. Given this assessment, what could this Committee do to help Americans confront a wider range of options that they can use to help them plan for, and live with, a healthy, well-financed retirement period?

While I do not want to speak to specific reform proposals to change social security benefits, taxes, and/or privatization options, I did want to share with you several concerns my Panel had about potential reforms. We were in agreement that there appeared to be few, if any, changes in the US economy already under way that would offset the effects of potential social security benefit cuts on the future economic well-being of the elderly. Because of this, far more substantial adjustments than are currently in place will be necessary to compensate for significant decreases in social security benefits.

•Social security must be changed to achieve solvency, so it is critical that significant changes in social security benefits be announced soon – with sufficient lead time for workers to adjust their savings, consumption and retirement plans. To achieve this, it is important to legislate changes promptly – and allow some delay in implementation – to help people plan for the future. The desirability of delayed implementation only increases the urgency of prompt legislation.

•If payroll tax increases and/or benefit reductions are required to bring social security into solvency, they should be phased-in over time, rather than implemented abruptly. Gradual implementation reduces the magnitudes of notches (different treatment of cohorts close in age) and the perception of unfairness that notches engender.

•The nation would benefit from more frequent discussions about retirement income policy at the national level. I believe that it would be helpful to open up the debate by having the Social Security Administration make available to the research and policy community the actuarial and economic models it uses for forecasting and analysis. Computer programs, documentation, and data should be more widely available, and analysts outside the Department should be able to evaluate forecasts and simulate alternative policy scenarios. In addition, to better predict strategies for successful aging, it is essential to support continued data collection and analysis of the Health and Retirement Study. Congressional understanding and sponsorship of these efforts is therefore essential, and your Committee support will be important.

Other Options to Consider:

Regardless of how the nation proceeds in reforming social security, there are several other areas to begin focusing on. These can, I believe, be important in strengthening the other legs of the three-legged stool of retirement income security.

• As people spend longer and longer in retirement, it becomes essential to recognize that people need to invest – throughout their entire lifetimes – to survive retirement. Your Committee can do a great service by integrating this perspective throughout every policy decision made.

The financial issues are clearest: more saving is needed, as demonstrated above. In addition we must also think about other investments to carry us through the long term. These include investments in our health (prevention and exercise in middle age are key), in our intellectual abilities (ongoing education and training are essential for successful retirement), in our families (strong families supporting the young may translate into care for the old later on), and in our communities (involvement at all ages builds social support networks).

• Delaying retirement appears to be the least disruptive way for most older Americans to improve their prospects for old age. For some, poor health late in life could make this adjustment difficult or impossible. The critical task is to make delayed retirement more appealing, while taking due account of those who cannot work. Your Committee could explore what policy tools could make continued work at older ages a reality.

• We need to do more to build a national saving for retirement program. Improved access to and higher caps on tax-qualified retirement plans would help (401(k)s and IRAs for example). It would also be useful to limit people's access to the retirement assets while they are still young. It is also critical to do more to educate people on their likely needs in retirement, and the methods of meeting these needs. Employer match rates implemented in pension plans also provide incentives for people to save, and workers seem to respond in sensible ways. More should be done to involve people in their retirement investment process, earlier, and more often.

• Your Committee could launch a thorough review and simplification of the tax rules under which employer pension plans operate. There needs to be more coordination between the ages the IRS uses in the tax code and the SSA uses in social security regulations. There could be more coordination of different benefit levels for different types of defined-contribution vehicles. Some support the idea of having streamlined regulations that companies can follow when establishing a tax-qualified defined-benefit or defined-contribution plan. A system of uniform, coherent, and less frequently changed regulations would do a great deal to help people make retirement savings decisions in a predictable environment.

• Very low levels of private and aggregate national saving are a matter of substantial national concern. As I have shown, the average American family reaches retirement age with little personal savings beyond equity in a home. Unfortunately, few policies short of mandates are available to induce a significant change in American savings habits.

Conclusion

In closing, I would reiterate that retirement has become an attractive and successful stage in the life cycle for millions of Americans. Pensions and social security have been instrumental in this process. However saving shortfalls confront those on the verge of retirement, as well as the baby boomers next in line.

It is important to begin handling these shortfalls soon. Indeed, the earlier the necessary adjustments are legislated, the better, because early notification of impending changes gives people time to adjust their savings and retirement plans accordingly. Return social security's fiscal house to order is high priority, as is repairing the nation's system of saving via pension and other vehicles. I commend the Committee for its interest in and concern about retirement issues and thank you for your attention.

The CHAIRMAN. Thank you. On the question of delaying retirement for politicians, old politicians never die, they run just once too often.

Dr. Butler.

STATEMENT OF DR. ROBERT N. BUTLER, M.D., PROFESSOR OF GERIATRICS, DIRECTOR, INTERNATIONAL LONGEVITY CENTER, MOUNT SINAI MEDICAL CENTER; VICE CHAIRMAN, ALLIANCE FOR AGING RESEARCH

Dr. BUTLER. Good morning. It's a pleasure to be here again and I too would like to submit my statement for the record and just speak briefly.

I regard the Baby Boomers as a generation at risk. I don't think society is prepared for the Baby Boomers, nor are the Baby Boomers themselves adequately prepared, en masse. There are individuals, of course, who are.

So obviously, I think we can't wait until the Baby Boomers reach Golden Pond to begin to undertake some major preparations. I'd like to identify two among a variety of strategies that could be relevant. First, related to health, and second, related to the productive utilization of older persons throughout their lives.

Obviously, health does promote productivity. We know that and productivity also promotes health. We have data to support that. The good news comes from Duke University, Kenneth Manton, among others, who have found decisive drops in disability rates despite the population growing older.

So let's take up first the health strategy. First, a biomedical one, what we have called strategies to delay dysfunction in later life. I brought both a book and a report by the Alliance for Aging Research that bears upon this topic.

For example, if it were possible to defer, postpone the onset of Alzheimer's disease by just 5 years, we would have half as many people in American nursing homes. Alzheimer's disease costs over $100 billion a year. We also know that there are many in the world of immunology, molecular genetics, behavior, etc. who are already at work to discover opportunities for both delaying the onset of conditions and slowing the progression of conditions.

Of course we have seen the marvelous benefits that have come from hip replacements, intraocular lens implants, ACE inhibitors, and many other efforts.

But also within the biomedical research strategy is the opportunity to really promote the kind of health that was just mentioned, lifestyle changes, exercise, dietary reform, the advancement of the field of geriatrics itself. Many Senators, including Senators Mack, Specter, Frist, Graham, Harkin, and others have called for major increased funding of the National Institutes of Health—for example, up to double over the next 5 years to $25 billion. I recommend a real initiative, NIH-wide, with the lead agency of the National Institute on Aging, to address issues of frailty and dementia, this would save enormous amounts of money and bring quality of life.

Now briefly, the second strategy. That of maintaining the productive capabilities of older persons for as long as possible. In 1982, Alan Greenspan, then chair of the President's Commission on Social Security Reform, asked me to testify to the following intriguing question: inasmuch as life expectancy has grown dramatically since the passage of Social Security in 1935, Dr. Butler, why not work expectancy?

For example, in 1935, men lived less than 60 years on average, and women just a little over 60 years on average. Now it's 72 and 79, respectively. So it's been a dramatic change and one wonders if any society can afford having as many as 40 million people who are dependent and claimant, and who are not able to make purposive contributions to society.

Of course, many older people contribute in voluntary ways. But also many people experience programmed obsolescence. They have lost track of the kinds of opportunities enriching their lives.

So what could we do about this? Well, many don't realize that for a number of years Australia has had sabbaticals, not just for us academics, but for regular people. Norway now has in front of it, in its parliament, a decision which apparently is going to be positive, to provide a 1 year sabbatical after 10 years of work, the opportunity being to retool, to re-address new careers, to become further skilled, keeping up with modern technology.

Moreover, we could also make older workers more attractive and they're not that attractive to companies today. One of the ways to do this would be to do something that sounds counter-intuitive, to lower the Medicare age of eligibility down to 60. But the payoff would be increased productivity and a lower payout under Social Security. So I think we do have to be innovative and think in terms of the future.

But if, as is often discussed, we do raise the full eligibility age for Social Security up to 68, it's now 67, or to 70, we clearly are going to have to enforce the Age Discrimination in Employment Act. Because otherwise, we would be in a sense sentencing older people to a Dickensian poverty.

I'd like to say a few things about women. Because the situation of women is very special. In so many ways, the issues of aging really are the issues of women. They live 6.8 years longer than men do. They tend, when they marry, to marry men 3 years older. From base age 65, they have 4 years greater life expectancy. They need Medicare for 15 years, compared to men, who need it for 7 years.

They also always work. There is no way to escape the life of work when it comes to women. Because they work, of course, at home, as well as often in the work place. So I think the very special issues of women have to be addressed with respect to both Social Security and Medicare, and continuing opportunities to be productive in our society.

So in summary, I'd like to suggest that we make an Olympian leap insofar as the support of the National Institutes of Health, with a dramatic increase in funds which would be directed specifically to the practical issues of dealing with frailty and dementia, both of which are possible and within reach. Second, that we advance the field of geriatrics, which today only has 2 departments among 126 medical schools. In Great Britain, every medical school has a department of geriatrics. That we advance a national lifestyle campaign to really get people on board in terms of walking clubs, which are not expensive, you don't have to belong to an expensive health club, to control diet, and to do so much that could also enhance quality of life.

Fifth, that we increase work expectancy. We live longer, why shouldn't we work longer.

Now, the reality is, we've had an extraordinary century. We've gained 28 years in life expectancy since the year 1900. Twenty percent of that gain is from base age 65. So that it's not unrealistic since we have both increasing life expectancy and increasing health that we should also enrich ourselves by the utilization of older people.

So in conclusion, I'm delighted with the opportunity to express these thoughts as to how we might go about rescuing those Baby Boomers from Golden Pond.

Thank you, Mr. Chairman.

[The prepared statement of Dr. Butler follows:]

Testimony
Special Senate Committee on Aging
March 6, 1997

by Robert N. Butler, M.D.
Professor of Geriatrics, Director of the International Longevity Center (U.S.)
The Mount Sinai Medical Center, New York City
Vice-Chairman, Alliance for Aging Research, Washington, D.C.

Clearly, we cannot wait until the year 2020 or 2030 -- when millions of Baby Boomers reach "Golden Pond" and approximately 20% of the population will be over age 65 -- to develop strategies that preserve, maintain, and even improve upon the health and quality of life of older Americans. The costs associated with disability in late life, which is manifested in increased rates of frailty, dementia, and chronic conditions, are extremely burdensome to society at large, to families who take care of older relatives, and to individuals themselves who must cope with debilitating conditions and reduced resources. Longer life expectancy and growing numbers of older and possibly disabled people combine to create a frightening image of old age in the near future. In general, people are not so much afraid of growing old as they are of becoming disabled and dependent in old age.

We may not be able to reverse aging, but we can do something about disability in late life. When the Baby Boomers reach "Golden Pond" the story need not have an unhappy ending. Dr. Kenneth Manton of Duke University, for example, has shown that there have been decisive drops in disability rates over the last decade. Indications are that if this trend continues or increases, the savings in both human suffering and health care costs will be enormous. The best way to moderate the public costs of old age and improve the quality of life for older people is to foster ways to keep older people as healthy and as productive as possible, for as long as possible.

This approach is in keeping with a report released by the Alliance of Aging Research ("Putting Aging on Hold") on the occasion of the White House Conference on Aging and a book that derived from a symposium held by the International Longevity Center at The Mount Sinai Medical Center entitled "Delaying the Onset of Late-Life Dysfunction." Both documentspromote the strategy of finding means to delay the onset and slow the progression of various aging-associated diseases. In these documents, we calculated savings that could derive from the delay or prevention of Alzheimer's disease. It has been projected that by the year 2040, as the number of older people increases, the number of Alzheimer's patients will grow to three to five times the current count, which means that we could be facing a $300 billion to $500 billion national expenditure for Alzheimer's disease alone. We estimated that postponing the onset of Alzheimer's disease by five years would, in the course of time, reduce incidence by half, thus saving half the cost of this devastating disease, currently estimated at $100 billion annually.

I am sure many of you are aware that there has been a steady decline in our nation's investment in science and technology. But the decline in the rate of disability that we have seen in the past decade or so lends support to quite the opposite tack. If we could accelerate the rate of disability decline, we could save more health care dollars. Even though the older population will increase, we could stabilize Medicare/Medicaid spending by reducing disability rates. This goal is well within the reach of scientists. Treatments that have been put into widespread use over the past few years have helped older people remain active and independent and have reduced chronic care needs. These treatments include surgical hip replacement and use of estrogen replacement therapy among post-menopausal women, which helps prevent or delay osteoporosis and heart disease. Such treatments need not be high tech. In some cases, lifestyle changes, such as elimination of smoking and increased exercise, have helped to delay dysfunction. The use of antihypertensive drugs called ACE inhibitors have shown to be very effective in the treatment of heart failure, but despite such success, the drugs are not yet in widespread use. Increasing our investment in biomedical research, encouraging healthy lifestyles, and promoting the use of existing therapies among health care professionals can help us reach the goal of decreasing disability among older people. The result will be lower health care costs as well as higher *healthy* life expectancy and higher quality of life for older Americans and their families.

The distinction between longer life expectancy and longer *healthy* life expectancy is an important one. People are enjoying a greater health span and are spending many more years in retirement than was the case when Social Security was passed in 1935. Then life expectancy was less than 60 years for men and little more than 62 for women. Today it is 72 years and 79 years, respectively. At the same time, burdens on public retirement programs are increasing and personal savings are becoming inadequate to meet the needs of people who are spending more years in retirement. All this points to a growing need to keep workers in the labor force longer. We must respond to increased healthy life expectancy with policies that will help older people remain productive and contributing members of society. This is good for society as a whole and good for individuals and their families.

The current trend of corporate downsizing and early retirement for employees, however, runs counter to the increase in healthy life expectancy and, by extension, healthy potential *working* life expectancy. The impact of these trends must be carefully studied. I believe that it is socially unwise and expensive to create a claimant, dependent class of some 40 million or more retirees. It is also unwise for individuals, since studies have shown that those individuals who have a purpose outside of themselves, clear goals, and structure in their everday lives have a better chance of living longer and happier lives.

It is a waste to society not to capitalize upon the accumulated experience and talents of such a massive portion of our population. Corporate America and all employers need to rediscover the dependability and usefulness of keeping older persons in the work force, and we need to initiate policies to reeducate workers regularly so that they are capable of working productively longer. The U.S. could learn from other countries in this regard. Australia, for example, provides sabbaticals to workers so that they can enhance their skills, and Norway's parliament is considering a life-long learning program which would give Norwegians a year off their jobs at full pay every decade to hone their work skills. To make older workers more attractive to employers, policies need also to be introduced to make older workers less expensive for companies. For example, former Social Security Commissioner Robert Ball once suggested lowering the age of eligibility for Medicare to 60. In this way, employers would save on private health insurance expenses for their older employees. What might at first seem like an added cost would be offset by added productivity and postponed Social Security payouts.

I do not mean to suggest forced labor for older people. But work opportunities should be in place for people who want or need to continue working. Some polls show that two-thirds of people want to retire and one-third do not. It should be noted, however, that many of the people who say they do want to retire hold hard, body-breaking jobs in fields, factories or mines, and many others have been programmed into obsolescence. Many of these people express interest in continuing some kind of employment, part-time or flex-time jobs, for instance.

I see two ways to achieve the goals of containing the costs of old age to society and improving quality of life for older people and their families. First, we must reverse the trend toward decreased investment in biomedical research. I would like to encourage Congressional allocation of additional resources to the National Institutes of Health (NIH), with the National Institute on Aging as the lead agency in an NIH-wide initiative to address the health problems associated with aging in a more profound way, specifically an initiative that addresses the costly conditions -- frailty and dementia.

Second, we must expand work opportunities for older people. It has been said that raising the Social Security eligibility age for full benefits to 70 could save $80 billion annually and increase the size of payroll contribution to the Medicare fund. If we could accelerate the rate of decline in disability rates, such an increase in retirement age becomes more feasible, so long as society simultaneously provides job opportunities.

There is no doubt that the aging of the Baby Boomers will have a profound effect on society: a greater number and higher proportion of older people in the population; a greater burden on health care services and on public support programs. We cannot wait until the problems become unsurmountable to take action. Our best bet in heading off such challenges in the future is to invest today in research and create new work policies, as well as enforce existing policies such as the Age Discrimination in Employment Act, so that older people can remain healthy, contributing members of society for as long as possible.

The CHAIRMAN. Thank you very much.
Mr. Towey.

STATEMENT OF H. JAMES TOWEY, PRESIDENT, COMMISSION ON AGING WITH DIGNITY

Mr. TOWEY. Thank you, Mr. Chairman, and thank you for the invitation to appear before the committee.

I also want to thank your staff that's been wonderful to work with.

The Commission on Aging with Dignity was founded in Florida, because Florida is at the epicenter of the aging in America phenomenon. We already have one in five of our residents 65 and older. So we are facing right now, how do we work together intergenerationally to uphold the right to age with dignity? This right to age with dignity is not something that's conferred by Government, but by God. It's engraved in the hearts and souls of people who are living in the community, and of course it means not only a standard of living and a quality of life, but also in your senior years, in moments when you're frail or vulnerable with disability, that your life is seen as a gift and not a burden to society.

What the Commission on Aging with Dignity does, it's outside of Government, we're privately funded, we work with Government leaders, business leaders, and religious leaders to chart a path of hope for families, particularly Baby Boomer families who are trying to raise their children and care for their parents and also plan for their own retirement.

What we are telling Baby Boomer families in our public education forums, and we'll have one in Orlando, FL, March 14, is a very simple message: Build your own survival kit, build a Baby Boomer survival kit. Don't expect Government to do it for you, because it can't and it won't.

We're telling Baby Boomers, here's what you need to look at. Don't expect Medicare and Medicaid to do for you what it's doing for today's seniors. We're telling them to change lifestyle habits; that means get rid of the cigarettes, cut back on the booze, cut back on unhealthy eating and exercise habits, and of course, we're telling them to be better savers and be worse consumers.

We're also urging Baby Boomer families to renew their sense of God and the transcendent, and to confront death and dying issues, not only with respect to their parents but also with respect to their own lives. We're urging Baby Boomers to start renewing that sense of the generational covenant that says, "let's respect our elders, and let's view them as a gift to society." If Baby Boomers do not treat elders with respect, they can expect to be treated much worse in their own retirement years, because this of course bears upon cultural attitudes.

I'd like to take the remaining time that I have, Mr. Chairman, to make two specific recommendations that Baby Boomers are seeking from Government. Because you chair a committee that has such an important role in shaping policy, this is a wonderful opportunity. The first deals with the financial concerns of Baby Boomers. Right now, it's crazy, because if I were to give money to the United Way to care for some, perhaps, widow whose Social Security check won't quite cover her needs, if I gave that money to United Way, every penny of it's tax deductible. But if that widow happens to be my mother, and I'm helping her make ends meet, not a penny of it is tax deductible. She's living on her own.

So what I think the Government could look at for Baby Boomers is, encourage family members to care for their own, put those incentives in the right place. I think a lot of Baby Boomers want to help their family members. They're also trying to save for their kids' college. They're also trying to put money away for retirement and when you find that you want to help your parents, we see so many saying, "I can't," and so they push it onto Medicaid. If the incentives were in the right places, I think families would do it.

Finally, Mr. Chairman, on an incentive issue, I think we need, as we confront death and dying, to recognize that our current system of care at the end of life is not working. The Robert Wood Johnson Foundation just launched its Last Acts campaign, which is attempting to change our approach to care and caring at the end of life. Fundamental to these changes is how we deal with so-called advance directives. You, Mr. Chairman, supported the Patient Self-Determination Act of 1990, as did an overwhelming number of your colleagues. What that act attempted to do was to not only promote advance directives, but require Medicaid and Medicare providers to inform patients of the right to make their own health care decisions.

Unfortunately, this act is not working very well. While we have in general ways encouraged advance directives, there's no requirement, for example, that the patient complete the advance directive. There's no requirement that family members be involved, and there certainly aren't any incentives for those who do execute advance directives.

What we are saying the Government could do is, let's go the next step. Let's reward individuals who have these advance care plans, and let's punish those who don't. Maybe it means that, for those who have co-pay requirements, you look at how we can provide incentives in out-of-pocket costs, or we start looking at collecting meaningful data on what happened after you passed this act 6 years ago.

What we're seeing is a tragedy, Mr. Chairman, at the end of life, individuals spending their last days trapped in medical technology, family members didn't want this and of course the patients didn't. I see the red light as my signal to now spend the next 30 minutes talking about other challenges. [Laughter.]

So I will close by simply saying, Mr. Chairman, that the Baby Boomers in Florida, and we hope nationwide, recognize we have to construct our own survival kit. We certainly hope Government can help in that process.

Thank you.

[The prepared statement of Mr. Towey follows:]

COMMISSION ON
AGING WITH DIGNITY

The United State Senate Special Committee on Aging
March 6, 1997
Dirksen Senate Office Building Room 628

Testimony of H. James Towey, President

Mr. Chairman, and members of the Committee, I want to thank you for the opportunity to appear before you and briefly share with you the work of our unique organization.

The Commission on Aging with Dignity is a privately-funded, non-profit organization which was founded in the state of Florida last year to educate the public, particularly baby boomers and their parents, on what steps need to be taken now to address the "aging in America" phenomenon that is underway.

The title "Aging with Dignity" seeks to be a starting point in this public education campaign. The right to age with dignity means different things to different people. For some it centers on material issues - a decent quality of life and standard of living. To others the right to age with dignity addresses the spiritual dimension of their humanity - the right to be respected, to be seen as a gift, not a burden; the right to live free of loneliness, the right to approach your death without living at the mercy of medical technology, or in a haze of pain.

Mr. Chairman, this right to age with dignity is not conferred by government, but is engraved by God in the hearts, minds and souls of every human being.

So the Commission on Aging with Dignity seeks to uphold and safeguard this right to age with dignity, and we do this with no government funding whatsoever. In fact, we won't accept any government money. This is a movement outside of government that works with business, religious and government leaders to chart a path of hope for the future of our nation.

The Commission was founded in Florida because the state of Florida is "ground zero" in the aging of America. Today in America there are 33 million elderly residents, and early next century that population will explode to 77 million.

Florida's senior citizen population today - one in five of all state residents - is precisely what the country will look like in the year 2025. And therefore, the steps that Florida takes today to prepare could provide valuable guidance to the country as a whole as it ages, and as the baby boom generation begins to retire in the year 2010.

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"AFFIRMING AND SAFEGUARDING HUMAN DIGNITY THROUGH EACH SEASON OF LIFE"

A NON-PROFIT FLORIDA CORPORATION AND 501(C)(3) ORGANIZATION

The Commission on Aging with Dignity's initial public education effort, Project 2010, is unique in the United States and has been nationally-acclaimed. Project 2010 consists of a series of public forums where many of Florida's most prominent leaders come together to address the needs of baby boomers trying to raise children, care for their parents, and plan for their own retirements.

Governor Lawton Chiles, Chairman of the Project's advisory board, convened the first forum on September 12, 1996, and he was joined by a distinguished, non-partisan group of Florida leaders, who heard Mr. Peter Peterson, author, and Founder of the Concord Coalition, make his presentation on what America needs to do today to prepare for the retirement of the baby boom generation.

Those who have joined Governor Chiles on our board - and to be a member you have to participate at one or more of the forums - include Senator Bob Graham, Republican Jeb Bush, three members of the Florida Cabinet, Roman Catholic Archbishop John Favalora, Rabbi Solomon Schiff of Miami, Miami Herald Publisher Dave Lawrence and other prominent business CEO's, and others. No state in America has such a diverse and high-level group of leaders confronting the huge challenges of aging and of the so-called "sandwich generation," which refers to boomers "sandwiched" between the needs of their parents and children.

This 2010 Project was made possible by grants from The Robert Wood Johnson Foundation, The Claude Pepper Foundation, and the Weinberg Foundation, and the Project's public forums have been very warmly received and widely-publicized in Florida. In fact, National Public Radio's *All Things Considered*, and a feature story in the *Christian Science Monitor*, have given the Commission a national audience, and we are scarcely six months old.

Why all the interest,Mr. Chairman? It's simple. We are giving baby boomers the straight scoop, the most likely scenario of what the years 2010 and beyond will look like for them. No scare tactics, nor any avoidance tactics.

The Commission on Aging with Dignity lays out the problems to stimulate change in behavior, to stimulate individual responsibility, to prompt business, religion and government leadersto take steps now to ensure that each generation has the right to age with dignity. To ignore what endangers human dignity, is to endanger it.

Therefore, Mr. Chairman, the Commission on Aging with Dignity is helping construct a "Baby Boomer Survival Kit." Baby boomers need a survival kit. They can not enter the 21st century empty-handed. The "Baby Boomer Survival Kit" is composed of three tools: health, financial, and spiritual.

Health. Baby boomers should not expect Medicare and Medicaid to do for them what it is doing for today's seniors. That would be fiscally impossible. Medicare will be dramatically different. Why? Too many elderly sick people living very long lives, and too few workers paying into Medicare.

There has been a great deal of talk about Social Security and whether it is going to collapse beneath the weight of the baby boom retirement. The real danger is Medicare and Medicaid collapsing. What will smash the nest eggs of baby boomers will be health and long term care costs –doctor bills, hospital bills, pharmacy bills, and nursing home costs.

Medicaid nursing home services are a perfect example of how the rules will change for baby boomers. Even though Medicaid was set up on an "inability to pay" basis, it currently pays for the nursing home care costs of even millionaires. No joke!

I would like to insert into the record an op-ed I wrote for *The St. Pete Times* on this subject. The Commission on Aging with Dignity held a December forum in Tampa, and sure enough, tax dollars were paying for the care of even millionaires and for many others who were no where near poor. The elder law section of the Florida Bar has made "Medicaid estate planning," and the legal transferring of wealth into annuities, a cottage industry. Only about $50 million of Medicaid goes to the affluent today, although that sum increases each year.

But beware baby boomers! Don't look to Medicaid to bail you out if you have to go to a nursing home in 2010 and beyond. Here's why: In Florida, by the time the baby boomers begin to retire, Florida's over 85 population will have doubled, and nursing home costs will have quadrupled—that is, they are expected to increase by $4 billion dollars.

So the Commission on Aging with Dignity says to Baby Boomers: kiss Medicaid nursing home care good-bye unless you are the poorest of the poorest of the poor. Don't plan on it.

Because Medicare will be drastically different, and Medicaid will be limited to the poorest among us, the Commission on Aging with Dignity promotes health lifestyles, exercise, and proper diet, as first steps toward a dignified retirement. We promote long term care insurance. We promote advance directives to help baby boomers take control of critical care decisions on when to withdraw or withhold medical care. And we urge baby boomers to prepare for less health care support from government.

Financial. The Commission tells baby boomers, you have two choices. You can look at an elderly poor person today and see your face tomorrow, or you can spend less and save more and have a better retirement. We aren't trying to scare people. The fact is, there will be too many old people in 2010 and beyond and too few workers, and only the poorest are going to be receiving public assistance. Social Security can not pay the windfall benefits it pays today.

Mr. Chairman, our Commission treats as a given that retirement is going to be delayed for baby boomers beyond the projected 67, and that the generous benefits of today will be less generous tomorrow. But Social Security in some form will be there. Many baby boomers don't have employer-provided pensions. And yet baby boomers often struggle to save anything. That is why consumption habits have to change, and savings rates have to increase.

We tell baby boomers: sit down with a financial planner. Now. Open your eyes and see what you are putting away today and how far it will stretch next century. What good is it to tell someone in the year 2020, "You know, you should have saved more, spent less, planned for nursing home costs, in the 90's?" Then, it will be too late.

Spiritual. Finally, the spiritual dimension of aging with dignity. Mr. Chairman, baby boomers face an urgent challenge: renew our culture's respect for elders, or expect to be of little value to society in the years 2010 and beyond. Our put another way, treat elders better or expect to be treated worse.

There has been a covenant among generations which has existed in this country, to the effect that if you care for your children when they are dependent, at some point when you are in need, they will care for you. Respect for senior citizens is fundamental to the survival of civilization, beginning with the seniors in one's own family. That respect is reflected in our Judeo-Christian tradition as a commandment: Honor thy Father and Mother.

And yet we look around today and see how many elders are dishonored, forgotten, pushed to the margins. We see devastating loneliness. In a society which glorifies the productive and efficient, we see elders groping for relevance in modern life. If these trends are not confronted and countered, by the time the baby boom generation retires, we could see outright inter-generational conflict.

Here, religious leaders must step forward to animate the hearts and minds of their faithful. Government cannot mandate respect, nor effectively render it. Only individuals can help their elders age with dignity, and by that I mean, help them to be able to love and to be loved, and to see themselves as a gift to society and not as a burden.

Seniors, too, have a responsibility to have realistic expectations of what their baby boomer children can do for them while handling the unique pressures and time requirements of a hyper-speed economy. And most of all, seniors have the responsibility to lead by example in changing our culture's attitude toward death and dying. Seniors must lead this discussion, in the home instead of the hospital, and confront death and dying.

The generation which rebuilt our economy in the 30's and 50's, and 80's, and also saved the world from the tyrants of World War II, is called to make one last, and important, contribution to society: changing attitudes and approaches toward death and dying in America.

Our current system of care at the end of life often degrades human life and dignity. Part of the reason there is a movement toward assisted-suicide, and huge expenditures in health care which is futile and which only prolongs the dying process, is because of our culture's denial of death and dying.

Other countries handle these issues differently. They talk about advance directives with their loved ones, they approach the sunset of their lives with peace and hope, they prepare others around them for their earthly departure. Only Americans treat death as an option. I am not suggesting some morbid preoccupation with death and dying, but I am suggesting that it will be impossible to sustain the right to age with dignity if we do not change our attitudes toward the elderly, and our denial of death and dying issues. The countries which do this well are those which affirm the value of seniors, recognize their gifts, and journey with them as they approach death. So again, respect for the elderly must be a given before attitudes toward death and dying can be changed.

Mr. Chairman, the Commission on Aging with Dignity does not expect government to fix the problems confronting baby boomers and their families, nor to do for us what we should be doing for ourselves.

Recommendations

But while government is not the solution, it does have a legitimate and important role to play. I will take this opportunity before this policy-shaping branch of the United States Senate to propose three ways government can help baby boomers and their elders.

First, financial. Insist that federal tax laws encourage and reward baby boomer families who contribute to the care of their parents. Many baby boomers help their parents by supplementing their fixed incomes, yet they aren't eligible for dependent care expenses or other income tax deductions.

Now get this: these boomers can give any amount of money to the United Way to help elders who live on their own and can't quite make ends meet, and every penny of that is tax-deductible as a charitable contribution. But if they spend that same amount for their own mother who has her own little apartment and whose Social Security check is not enough, that baby boomer is out of luck. That is lunacy. Recognize families who help their own. As it is today, dependent care tax credits require you to live in the same house as your parent, which is not the norm, and for those who itemize their deductions, only a partial deduction, if any.

The U.S. government recognized the unique challenge of two-parent working families trying to provide for their children and live-in parents. We now must go further. It is time to help those same families who are trying to provide for their parents who still live on their own, but can't make it on their own.

The second proposal for government deals with health. Mr. Chairman, increased longevity and advances in infectious disease control have stretched life spans to their natural limits. We see a growing number of Alzheimer victims, stroke victims, and others who live at the mercy of others. Medicaid has picked up the cost of nursing home care for many of them, and as I pointed out, those costs will be unsustainable in the years 2010 and beyond.

It seems to me that the country must take a look at giving baby boomers an incentive to buy long term care insurance, to help make it affordable. Without incentives, such insurance is too expensive for most boomers. And if we wait until baby boomers are in their fifties and sixties, the premiums will be even further out of reach. Yet we all recognize that an increasing number of seniors next century will need daily assistance, perhaps even nursing home care.

There is no public discourse about long term care insurance because Medicaid is picking up the tab for all but the wealthiest. The Special Committee on Aging can provide key leadership in "outing" this matter, because baby boomers are being lulled into a false sense of security. Long term care insurance is expensive, and can be made less expensive if government and business work together to make it so.

Finally, Mr. Chairman, let me propose one thing government can do with respect to the spiritual dimension of life as it pertains to the chronically or terminally ill. I want to urge this Committee to do its part in changing the culture on death and dying by going the next step on advance directives. In 1990 you passed the "Patient Self-Determination Act" which promoted advance directives and required Medicare and Medicaid providers to inform patients of the right to make their own health care decisions, including when to accept or refuse medical treatment.

Unfortunately, for reasons to lengthy for this testimony, the Act has not been a ringing success. First, there is no requirement that a patient complete an advance directive, and in any case, many of those who did complete one did so in haste or without the company of loved ones.

Therefore, I urge this Committee to tighten up the Act to make it more effective, by rewarding individuals who have advance directives and punishing those who don't; by rewarding care providers who honor advance directives, and by punishing those who don't; and, by making advance directives part of the rite of passage to full citizenship.

It is a scandal in this country that more than 80% of Americans do not have advance care plans. Worse than the fiscal impact of so-called futile care is the tragedy of so many Americans dying in ways they did not want. It is no wonder that the "assisted suicide" movement has gained much public sympathy, when you look at the "over-medicalization" of the dying process. Permit me to pause and say that I oppose assisted suicide, and I would like to introduce into the record an op-ed in *The Miami Herald* to that effect. We are our brother's keeper, not our brother's killer.

Effective advance directives, which include the identification of a surrogate decision-maker in the event of incapacity or incompetence, and which are the product of family discussions and doctor consultations, can make a huge difference in helping people age with dignity, particularly the frail and vulnerable.

Mr. Chairman, thank you for this opportunity to share with the Committee the work of the Commission on Aging with Dignity, and I would be happy to answer any questions.

COMMENTARY

TIMES ■ SUNDAY, DECEMBER 8, 1996

Millionaires on Medicaid?

■ H. James Towey

In Florida, we have millionaires on Medicaid.

How is it possible that a program established for the truly poor and needy could allow people with substantial resources of their own to have their nursing home costs paid by the public? The answer is simple: The law permits it, and a growing number of lawyers and financial planners are taking advantage of a loophole that is large enough to drive a new Winnebago through.

Welcome to the world of "Medicaid estate planning," where through a process of asset transfers and income shifts known as "artificial impoverishment," even wealthy Floridians can be made instantly eligible for nursing home care at taxpayer expense.

State workers who determine eligibility for Medicaid estimate that approximately 5 to 10 percent of new Medicaid applicants are getting on the welfare rolls through such artificial impoverishment schemes. What they report is astounding:

■ A couple with their home paid off and $1-million in their bank accounts used their savings to buy an annuity in the wife's name, and the husband received Medicaid nursing home care until he died.

■ A man who had made at least $8-million from oil investments was declared incompetent, leaving his assets unavailable to him because of court orders, and he is living at taxpayer expense in a nursing home while his wife lives in luxury at home.

■ In one Southwest Florida office, there has been such an increase in lawyers applying for Medicaid for their clients that the office set up Tuesdays as "lawyer day."

Defenders of Medicaid estate planning say that not only is this practice perfectly legal, but that their clients paid taxes and have a right to receive something back from Uncle Sam. They further suggest that the amount of money spent in Florida on middle- and upper-class Medicaid nursing home recipients — estimated at $50-million — is only a small part of the program's overall $1.34-billion cost for 1996.

I respect these lawyers and their right to pursue the best interests of their clients to the fullest extent of the law. The problem with these arguments is that government subsidies for health care through Medicaid have always been conditioned on a person's inability to pay his or her own way. Artificial impoverishment makes a mockery of this principle.

A question of generational fairness quickly arises as well. Why should Medicaid be available for today's middle-class retirees, when it very clearly will not be available for similar baby boomer retirees next century?

Because of longevity and expected cost increases, Florida's Medicaid nursing home budget is already scheduled to grow from $1.3-billion today to $5.3-billion in 2010, and that is assuming no surge in middle-class recipients. No one in government has figured out where that extra $4-billion will come from, and, keep in mind, nursing homes don't even get reimbursed by government for the full cost of care as it is. So how in the world will Florida pay the estimated $7.6-billion annual cost of a Medicaid nursing home program in 2010 if all but the wealthiest of the wealthy are eligible?

Does anyone really think that working families next century are going to pay more taxes so that middle-class baby boomer retirees can receive Medicaid nursing home care, and then leave hefty inheritances to family members?

I don't mean to suggest that the Medicaid pendulum should swing too sharply in the other direction, and trigger "spousal impoverishment" — where generally the husband goes into the nursing home and the wife at home goes into the poorhouse before the state begins to pay for his care. Spouses should not be forced to sell their family house and fall into poverty before Medicaid is available for their lifelong partners.

But what the state does need is a measured approach, one that considers an "ability to pay index." Such an index would weigh all income and assets, assuring that government subsidies for nursing care are provided only to those unable to pay. Can the people of Florida afford rules that permit a Medicaid recipient to have a house of unlimited value, a car of unlimited value, and hundreds of thousands of dollars of personal wealth tied up in sheltered investments?

Further, government must level with baby boomers and tell them that even if Medicaid continues to permit free nursing home care for relatively wealthy people, it will not be able to afford to do so next century, and may not even be able to help more than one of every four poor nursing home applicants by 2010. That was detailed in an important report released last year that, for the most part, has gone ignored.

The people of Florida are willing to have tax dollars help the poor and needy among us. But when tax dollars meant to help the impoverished are also spent to help the artificially impoverished, public confidence in helping the poor can be shaken, and drastic cuts in services can result. For that reason, Florida must take a fresh look at its Medicaid program to ensure that it is serving only those people for whom it was intended.

In this time of tight budgets and constitutional tax caps, every dollar in Medicaid counts.

■ James Towey, former secretary for the Florida Department of Health and Rehabilitative Services, is director of the Florida Commission on Aging With Dignity. ■

Forum on Medicaid 'estate planning'

A state commission on aging will be in Tampa this week to talk about Medicaid "estate planning."

The Florida Commission on Aging With Dignity will hold a public forum at 1 p.m. Thursday in the offices of the Hillsborough County Commission, 601 E Kennedy, Tampa. The forum will focus specifically on issues of Medicaid abuse, and State Attorney General Bob Butterworth and state Comptroller Robert Milligan will preside.

The forum is the second in a series of five statewide, all of which are devoted to issues of aging. The commission is examining how the state will deal with the long-term care problems facing the baby-boom generation. By the year 2010, the nation's 76-million baby boomers will be preparing for their older years.

The Miami Herald

SUNDAY, FEBRUARY 16, 1997

Better alternatives to assisted suicide

By JIM TOWEY

Don't be fooled by public opinion polls that show that a majority of Americans favor assisted-suicide as an option for the dying. Those numbers simply reflect a very deep dissatisfaction with current approaches to medical care at the end of life.

When it comes to health care for patients approaching their deaths, modern medicine often does not know when to stop. This has led to an "over-medicalization" of the dying process, and countless sad outcomes for patients and their families.

Making matters worse, doctors, either untrained in pain management or fearful of governmental investigations, are reluctant to aggressively treat pain, and so cries from the dying for relief often go unheeded. It is not just physical pain that triggers fear and anguish as death approaches. So many of our sick and suffering approach the sunset of their lives dying of loneliness. Perhaps they are in a hospital bed or a nursing home, virtually cut off from family, friends and community support. All the while, they endure medical treatments and interventions that are futile.

With a health care system that is so often uncaring, it is no small wonder that there is public sympathy and acceptance of a character like Dr. Jack Kevorkian, the Dennis Rodman of medicine.

To many, assisted suicide has come to represent a "merciful" alternative, a lesser evil, a way for individuals to wrest control over their final days from those who might degrade their human dignity with medical technology and interventions that prolong their lives, and their suffering.

Indeed, the quick-fix of "assisted suicide" has a seductive simplicity to it. Proponents argue that assisted suicide is not about taking life, but about ending suffering. They make appeals to individual autonomy, personal choice and even constitutional right. Public opinion polls frame the question precisely in these terms, and leave unchallenged the four main claims that have given the assisted-suicide movement legitimacy:

Claim No. 1: Government should not tell me how and when to die.

Fact: Government doesn't. It is not illegal to make the personal decision to take your own life. Of course America has never embraced or legitimized suicide. When someone is standing on the ledge, we instinctively tell them not to jump. The issue is whether doctors, or other third parties, should be permitted to participate in the taking of the lives of others under the color of law. Only hooded executioners perform such duties in America today. However, any sick or suffering person has the right to end his or her own life, at any time.

Claim No. 2: Sick dogs and cats get put to sleep, but we tell dying humans they have to starve to death.

Towey

Fact: Humans aren't cats or dogs. Humans have the ability to reason and think, and have complex psychological and emotional processes. And before you embrace assisted suicide, talk to lawyers or guardians and hear the horrible stories of "greedy heirs" — those awaiting an inheritance and seeking the quick demise of a loved one with Alzheimer's or dementia. And one final fact: When humans who are dying stop eating, they don't "suffer" from starvation. Even the Hemlock Society's own literature acknowledges that pain is not present.

Claim No. 3: There is no slippery slope. Assisted-suicide laws can be written and administered in ways that prevent abuse.

Fact: This argument would be comical if it weren't so serious and didn't mislead so many to believe that assisted-suicide laws can actually work. Ask the people in the Netherlands about the thousands who have been put to death involuntarily under their country's euthanasia laws.

Or ask me. Two years ago I was the head of a state agency with 40,000 employees. I had repeated opportunities to witness first-hand instances, whether it was protecting children from abuse or deinstitutionalizing the mentally ill, where good governmental intentions led to very bad results. Why? Because of the "human factor" in implementing the laws, as well as the inevitable unintended consequences of those laws. You show me a law establishing assisted suicide and I will show you 10 ways it can go haywire.

Claim No. 4: Withdrawing or withholding medical care, or administering pain medicine that risks death, is no different from assisted suicide.

Fact: There is a huge difference, and that difference is intent. To hold otherwise is to label Gen. Dwight Eisenhower a mass murderer for sending troops to the beaches of Normandy. Gen. Eisenhower knew that this invasion risked the death of some of his troops, but his intention was to liberate Europe from the clutches of Nazi Germany. A doctor medicating to relieve pain is not intending death, even if death is risked or likely.

□

If assisted-suicide schemes aren't as harmless as they seem, is there no alternative? Can't we have a better choice for our dying than pain or poison?

Recently the Commission on Aging with Dignity launched the "Third Path" project to radically reform current attitudes, approaches and systems of care at the end of life, beginning in Florida. This campaign calls for improved medical management of pain; individuals taking control of the decisions on when medical care should be withheld or withdrawn in cases where their conditions are untreatable and recovery is impossible; making sure that these decisions, known as "advance directives," are followed, and, reaching out to the lonely and isolated who find their need to love, and to be loved, ignored by a society often blinded by its obsession with productivity and efficiency.

The Third Path project depends on efforts by government, business and religious leaders to do their part to improve our system of care. However, its emphasis is on individual responsibility, on families confronting the complex questions of end-of-life care in the living room, instead of in the intensive-care waiting room. Of course, unless America returns to respecting its elder citizens and valuing their lives, all of these efforts will be for naught.

When it comes to building a new system of care at the end of life, there are no quick-fixes to what ails us in America. Assisted-suicide schemes, while simple and seductively appealing, would be a disaster. A new approach to care at the end of life that is humane and patient-directed is desperately needed.

After all, we are our brother's keeper, not our brother's killer.

The CHAIRMAN. If you could bear with me while I have at least one question for each one of you. After that, if you feel a necessity to leave, you've been so patient, I will not hold it against you, if you have to get up and go.

I would start with you, Dr. Mitchell. In the sense about the part of your discussion about savings, you noted in your testimony the median household income in the mid-50's falls far short of targeted retirement savings. As I understand it, the leading edge of the baby boom generation is just now 50.

Do you have data for those currently in the baby boom generation 39 to 50? Are they doing any better than those preceding them, who have not been able to save for retirement?

Ms. MITCHELL. There are two parts to the answer. The first is that we will soon have data when the next wave of the Health and Retirement Study starts bringing in Baby Boomers. So that's to come.

But from the other pieces of evidence that we have, there are some bright spots and there are some concerns. We know the national saving rate is at an all-time low, and there's no good news there. Consumer indebtedness is also at an all-time high, particularly when you talk to young people. Credit card utilization and debt through credit cards is a matter of concern.

Men are not participating in pension plans in the rates that they were in the previous cohort. Of course, life expectancies are going up, and family structures are changing, so that people are not going to reach retirement age with as much support.

So those are some of the problems.

One of the bright spots and positive developments has to do with women. Women have come into the labor market, remained in the labor market, gotten pension coverage, and so they're probably going to be in a much better position than they were 20 years ago. I think there are some opportunities regarding the data we saw earlier on public opinion. If a third of the Baby Boomers doesn't think it's going to get anything from Social Security, that offers an opportunity to go further and wake people up, to get them focused on the types of savings incentives and opportunities they should be putting their money into. I found that statistic very striking.

The CHAIRMAN. Is the bottom line, then, that we need a major national education campaign on the shortage of savings among Baby Boomers and to enhance that?

Ms. MITCHELL. That would be a good start. I think there's also a tremendous amount of symbolism involved. For example, raising the early retirement age would be a wakeup call to people that they cannot rely on the Government when they get to be in their early 60's.

The CHAIRMAN. Dr. Bosworth, in the book, Setting National Priorities, published last fall, you noted there that Government is a net dissaver. If we could alter this situation by achieving a balanced budget, how much of an impact would that have on national savings?

Mr. BOSWORTH. Well, I think some people think there are some offsets. But economists would all agree that the vast majority of increases in savings, while reducing the public deficit, would translate into a higher national savings. I've usually used a figure like

25 percent offset. So that if we could reduce the budget deficit by $100 billion a year, I think we would increase national saving by about $75 billion a year.

The CHAIRMAN. That's a pretty definitive answer. Also, given that the increased costs per beneficiary is a big part of the problem, doesn't any plan to reduce Medicare expenditures have to necessarily address this problem, and additionally, those options that increase the age of eligibility or that ask beneficiaries to pay more or raise taxes or reduce benefits, don't really directly address that problem?

Mr. BOSWORTH. I think the reason we don't talk about Medicare in great detail is that most of the studies that have looked into the source of the cost increases would suggest that the problem is rationing. When you've got a population as heterogeneous as ours is, we don't like to discuss issues of rationing, and how a rationing system could possibly work.

As an earlier panel said, it's much more popular to say it's due to waste and inefficiency in the health care system, and all the studies say that's not true. It is due to some of the amazing advances that have been made in technology that have occurred. I think one of the biggest ones is that in the old days, if I went to the doctor and they suggested a test, they were usually talking about something that was painful and I left. [Laughter.]

Today, most of these tests are amazingly non-invasive and that accounts for an awful lot of their popularity. An MRI is a chance to relax and listen to some music.

This has had an enormous impact on the public's willingness to tolerate various types of exploratory testing. That's a big source of the cost increases.

So I would look to technology and then you've got a fundamental problem. If this is free from the point of view of the individual user, how do you ration demand and limit it to what the resources are that you have available?

That's not an easy answer, I think, to that problem. A good illustration, I believe, is to look back to the discussion in Oregon about Medicaid. There has been additional talking about the health care needs of other people. Wait until they start talking about their own health care needs under say, Medicare. I think it's a very divisive type debate.

The CHAIRMAN. Dr. Butler, there's not too many people that I've been able to hear on delaying the onset of sickness and other disabilities. Obviously the cost savings that go with delaying disability could be substantial.

If we were to adopt a Federal research strategy to delay the onset of disabilities among older people, what would be the top diseases or disabilities that you think we should focus on?

Dr. BUTLER. I would begin with all of those that produce frailty, such as osteoporosis, osteoarthritis, and sarcopenia, which is not a well-known condition, which is muscle thinning, which often leads to problems of balance and falls and broken hips. Most certainly, the dementias, not only the most famous of them, Alzheimer's disease, but the others, that are related to circulation in the brain.

In short, I would pick off the toughest ones of all, the ones that really lead to admission into chronic care, either at home or at the nursing home or in community based care. Those are related to mobility and to dementia. Those are the two big ones. I think fortunately we're in a position now, with the new technology that Dr. Bosworth mentioned, to really introduce real changes within a decade, if we mount that kind of attack.

But as you probably know, we're actually having a dropping off of investment in research and development in the United States, compared, say, to Germany and Japan. So I'm hoping that we will reinvigorate the biomedical research establishment. I've been very excited to see a number of Senators who take this point of view.

By the way, Dr. Bosworth, I hope you don't want us doctors to reintroduce pain into our medical practices.

The CHAIRMAN. Now, of all these diseases you listed, and maybe you didn't even list all——

Dr. BUTLER. No, no, not at all. There are many more.

The CHAIRMAN. But anyway, are there any of those, or any you didn't list, that research in that area might also have a complementary benefit of helping in some other disease or disability area so we might focus on those that we get a double benefit for research on?

Dr. BUTLER. That's an incredibly sophisticated question. Because certainly the degree to which we can address, for example, immune senescence, which translated means, with aging, the decline in the immune vigor, in other words, by the time we reach our 60's, we often have about one-tenth of the resistance against disease that we had when we were teenagers.

If therefore it were possible to strengthen the immune system by a variety of adjuvants, the surveillance effect that the immune system has in forestalling cancer would be affected, but also reduce dramatically the extent to which older people are subject to infections, such as pneumonia and flu. So that an innovative effort at the immune system alone would be a good example of what I think you're referring to.

Similarly, hormonal systems. We know that women live longer than men, in part, not only, but in part because they have a different hormonal system. It's only after the climacteric and the reduction in estrogen that women begin to approach the degree of heart disease that men have, and have had earlier in life, so that there are obviously potential strategies using the endocrine system that could make a difference.

All of this really reflects and speaks to basic research and at NIH, for example, only $60 million is devoted to the basic biology of aging, even though we know, after 30 years of age, every 7 years there's a doubling of the force of mortality or death rates. So that by a greater investment in the biology of aging, we might have a better understanding of what makes us vulnerable to so many diseases.

Fifty percent of all cancer after 65, 80 percent of all cancer after 50, why? What is the phenomenon that occurs at the molecular and cellular level in our bodies related to aging that predisposes us to so many of these diseases?

There are tremendous opportunities here, I think, for reaching a much higher quality of life, and of course at the same time, saving the country enormous amounts of money.

The CHAIRMAN. Thank you.

Mr. Towey, I've been a supporter of incentives, particularly tax incentives, with regards to buying long term care insurance. But we're in this phenomenon where we have Baby Boomers that are, their mothers and fathers are living longer, so they might feel a compelling need tc take care of them. They've got their kids maybe not through college yet. They've got to worry about their own retirement.

Is there anything we can do to encourage, I guess I'm asking your suggestions on encouraging Baby Boomers to buy long term health care insurance?

Mr. TOWEY. I think what Olivia pointed out, one of the reasons the savings rates are abominably low and one of the reasons consumer debt is at $450 billion, is because Baby Boomers are squeezed, just as you said, Senator, with the multiple pressures on their take-home pay and most Baby Boomer families are two parent working families.

So when you say to them, buy long term care insurance, and they're saying, "well, I've got to put away for college and I've got to help with my mom's pharmacy bill and help her with her copays" and so forth. They're saying, "we don't have the money." So when you ask me that, I guess I have an unsophisticated answer, which is, we have to build more tax incentives deferring taxation on very dedicated contributions, we do it for college in the State of Florida, where you can defer some of your earnings into a dedicated account that would go toward that.

I think business and Government have to work together to drive long term care insurance rates down. Right now, they're out of the reach of most Baby Boomers. If you're over 45, the premiums are almost prohibitively high. So I think we've got to build more tax incentives, and then going back to what I said earlier, Mr. Chairman, we simply have to give a better incentive for family members who are caring for their parents today. That would free up income to put into long term care insurance for your own needs. Medicaid is busted by the year 2010, it's broke.

In Florida, it's $4 billion more just for nursing home costs. We don't have an income tax in Florida. There's no way in the world that money's going to be there. So that's why I think we need these incentives now.

The CHAIRMAN. Along that line and drawing upon your previous experience there in Florida, you mentioned about divesting of resources to qualify for Medicaid, the problem that is. What should we do about that? As I recall in one of the bills last, year, we put some sort of felony requirement in there if they did that. There's now already pressure to repeal that, but beyond that.

Mr. TOWEY. If you repeal it, Mr. Chairman, and there's good reason to, because the law is so vaguely worded, it's unclear to anyone who it applies to and when. So a repeal makes sense just on those grounds alone.

But what would be a tragedy is for that debate to be lost and that debate is over whether Medicaid is meant to be providing services to people who can't pay or not. We have cases in Florida, they're all over the country, where millionaires are on Medicaid. Mr. Chairman, what's interesting is, that bill and all this discussion is deflecting attention from what is the most well traveled path on getting onto Medicaid. It's called Medicaid estate planning and it has to do with putting your resources into annuities.

What it will allow people to do with considerable wealth, I'm talking about hundreds of thousands of dollars, put it into their home, put it into annuities, perfectly legal, it's not criminal, you can do it with forethought. They have "lawyer days" at Medicaid eligibility offices. What happens is, the person's on Medicaid and they're in a nursing home and Government's picking up the tab. Their spouse is well off. I'm not pushing spousal impoverishment, God knows. We face real problems for people who don't have resources.

But if Medicaid was meant to help people who can't pay for their own care, I think, Mr. Chairman, it makes a lot of sense to go back and say, "let's restrict it to those individuals who truly can't pay," and I'm talking about a family unit, not just that individual who shed his or her assets into annuities or bought up a $400,000 mortgage.

The CHAIRMAN. Dr. Mitchell.

Ms. MITCHELL. I acknowledge that this is an issue. I would go back, though, to a prior point, which is that people aren't going to be in the market buying long term care insurance unless they understand they need it. We saw from the earlier data this morning that still a vast majority of the people believes that nursing homes will be paid for by Medicare.

So if there's not the fundamental appreciation of the risk, the cost, and the need for insurance, then you're going to end up with a very thin market, which is what you have, and one that's very adversely selected, which leads to higher costs.

Mr. TOWEY. Mr. Chairman, just to echo that, if you're passing out apples free across the street, nobody's going to buy them on this side, they won't buy long term care insurance.

The CHAIRMAN. I'm going to thank you all very much, first of all for being patient, your expert testimony, a lot of new ideas that we haven't heard here on the Hill, and the necessity for the extension of these remarks beyond these walls to educate the public, particularly the Baby Boomers, to be ready for retirement.

Thank you very much. I adjourn the meeting.

[Whereupon, at 12:20 p.m., the committee was adjourned, to reconvene at the call of the chair.]

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