

THE IMPACT OF SOCIAL SECURITY REFORM ON WOMEN

HEARING BEFORE THE SPECIAL COMMITTEE ON AGING UNITED STATES SENATE ONE HUNDRED SIXTH CONGRESS

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THE IMPACT OF SOCIAL SECURITY REFORM ON WOMEN

TUESDAY, JUNE 1, 1999

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

The committee met, pursuant to notice, at 2 p.m., at Pulaski Heights United Methodist Church, 4823 Woodlawn Avenue, Little Rock, AR, Hon. John Breaux presiding.

Present: Senators Breaux and Lincoln.

OPENING STATEMENT OF SENATOR JOHN BREAU

Senator BREAU. Good afternoon, everyone.

Good afternoon. Our Senate Aging Committee will please come to order. My name is Senator John Breau, and I'm your neighbor to the south from the State of Louisiana. I've already talked to a number of people in the audience who know where Louisiana is, and many of you who actually have kin folks and relatives down there, so I want to tell you how delighted I am to be able to come back to Little Rock and back to Arkansas and be with my good friend and special colleague, Senator Lincoln.

I always enjoy the opportunity to come to Arkansas, as I've said before. I always really love coming to Arkansas except when LSU is playing up here. Just about any sport you can think of, it's always been a tough time for us.

But we are here this afternoon for a hearing on aging and Social Security and retirement programs in particular, with particular emphasize on how Social Security affects the retirement years, particularly of women, which is the largest category of our population and the largest category of those who are in the category of being senior. So our committee in Washington deals with aging problems. It's the Aging Committee. I serve as the ranking Democrat. And a very valued member of that committee is your own United States Senator, Senator Blanche Lincoln.

I want to tell you how proud I am, and I know all of you are, about what she has already been able to do for Arkansas and for you. She has really hit the ground running. She is a very valuable member of our committee. I think it's particularly important, and we are very fortunate when we're talking about problems, particularly with women, to have a woman on the committee. You know, I think it's—those of us can wax eloquent about the problem, but I think it's particularly helpful to have a woman on the committee when we're talking about problems that are particularly important to the women of our country. So we're very pleased and proud to

have her. She has really rolled up her sleeves and started working from the very first day, and we're honored to have her.

Let me just make a comment or two about the subject matter this afternoon. We're going to be hearing from a couple of panels of people who will be making statements. We intend to take their information back to Washington and to use it as we try to develop a legislation dealing with Social Security, in particular the problems with women.

Women, I think it's clearly understood, are among some of the most vulnerable population that we ought to be looking toward protecting when we consider Social Security reforms. We need only think of our mothers and our wives and our daughters, and I can add my two granddaughters which we are the proud grandparents of. If I had known how much fun it is to be a grandparent, I would have been one a lot sooner. But they are really a delight and we have two granddaughters. So what we do is not only for those who are seniors today, but those who will be seniors in future generations.

I want to make sure that, while we talk about the insolvency problems of our Social Security growing broke, which is a real problem, I think that we also need to look at Social Security as an opportunity for us to improve it and not just to keep the status quo, but even make it better. One of the things that I have been involved in is looking at Social Security, not just as a program that gives someone a check in their senior years, but also a program that helps people face all of the burdens of retirement. I'm talking about things that Social Security doesn't really cover.

I was chairman of the National Commission on Medicare. One of the things that we looked into was the lack of long-term care for our seniors. So the quality of life in your senior years is what we as a nation need to be looking at. It's not sufficient for us as a nation just to help people live longer, we also should be involved in helping them live better and helping them have a better quality of life as they live a longer and longer period of time.

So we're looking at ways to try and help the Social Security program become solvent again, but also, at the same time, look at some of the other problems in addition to just providing the checks and maybe the program can ultimately be involved in providing benefits to our seniors.

I think many women have unique and special problems in dealing with Social Security. Many of them have not worked as long as their male counterparts, and while you did work, you were not earning as much as a male was earning, and that's a problem we as a nation have to continue to try and address and improve upon. So it's a question of equity for those who have not worked as long because of children and raising children at home, and then when you did work, you were not earning as much as your male counterparts.

So these are some of the problems that have contributed to the inequity in Social Security. It's a wonderful system, but one that does not treat, I think, women as it should nor as it could. That's one of the goals of our Aging Committee that we're working on to try and improve.

Blanche really insisted that we come to Arkansas. I'm glad that she did, because we're neighbors and I feel very comfortable when I come to your State. It's important that Members of Congress get out of Washington every now and then and come out into the field and to sit in places like this church setting and just hear from people back home about what your concerns are.

Medicare is a very difficult subject to deal with. It has a lot of emotion, a lot of history, but it's so important that we get the job done correctly and properly. It means that we have to get out of Washington and listen to the people in the field and in Little Rock and in Louisiana and other parts of the country. So I'm delighted that Blanche invited me, as the Senior Democrat on the committee. I am very pleased to have her as my colleague and work with her, and she's doing you a very good job. You can be real proud of her.

Senator Blanche.

OPENING STATEMENT OF SENATOR BLANCE LINCOLN

Senator LINCOLN. Thank you. I appreciate my colleague, Senator Breaux. And let me tell you folks, Senator Breaux does a fabulous job. When I first served in the House, he was one of the members that I could look to for real common sense legislation, issues that were going to make a difference in the people's everyday lives. And I'm extremely proud to have him as our guest here in Arkansas and as the ranking Democrat on the Senate Committee on Aging. He does a fabulous job for us as a country and as a southerner. I'm proud to serve with him.

He mentioned that I hit the pavement running when I got to the Senate, and he's right. And I've got good training. My 3-year-old twin boys of mine have taught me how to run and run pretty quickly. So when I hit the Senate, I knew immediately what I needed to do, and that was to get on some committees where I could be effective for the people of Arkansas, and I felt like the Senate Committee on Aging was one of those. It is addressing many of the critical issues across our country, Social Security, Medicare insolvency, as well as those programs in terms of how we can reform them in regard to fairness among all Americans.

I'm very pleased to be here in Little Rock with the Aging Committee for my first very official field hearing from the Senate Special Committee on Aging. I do believe it's a very important issue to all of us. Men, women, children, all should be concerned about Social Security, and I think that's one of the things that we will be able to bring out here in this hearing it's just not an issue for the elderly, it's an issue for everyone to be concerned with in this country because we can remember back what this country was like, where there was a high poverty level among seniors, when we didn't have Social Security. And that's what's important for us to remember, is what we're doing, not only in terms of reforming and making sure it's going to be good for future generations, but to look back and realize the good that we have done with Social Security.

I'm also very honored to have Senator Breaux here. I would also like to mention my colleague from Arkansas, Senator Tim Hutchinson. Senator Hutchinson could not be with us today because of a scheduling conflict that he had, but he does sit on the Aging Committee, and is involved in these issues, and I did want to men-

tion him and his staff. I believe he has a staff person here. And so we're very appreciative of his input in this today.

During my Senate campaign, Social Security and its impact on women was one of the most important issues Arkansans wanted to discuss. As one of only two female Senators on the Special Committee on Aging, I feel a personal sense of commitment and responsibility to educating, not only women, but everyone on Social Security and how we can make it a more fair program designed for everybody.

Everyone agrees that changes need to be made to the Social Security system to insure its stability in the future, but women have a particular important stake in making sure that any of the changes to the Social Security program are carefully considered. Why? My colleague has brought up some of those, but the fact is, women live longer. They depend on Social Security more. Women earn less. It's a statistic. It's not just something we thought up, but it is a statistic that women earn less over their working years. And women age sixty-five and older are twice as likely to live in poverty than men of that very same age group.

Interestingly enough, the debate about Social Security reform is terribly important to younger women and younger individuals, working women in today's world in terms of their future financial security. Not only is it important to them in the fact that, for someone my age, I've been putting into Social Security for twenty years, so you bet I'm going to pay attention and work hard to make sure that that investment is good and that it's going to be there for future generations. We can't just say, "oh, it's not going to be here when I get there," we have to work hard to insure that it will be there.

But the other thing that's important to recognize is that younger women today, just like myself, have older parents who are deeply dependent on Social Security and Medicare. And if those programs are not there for our parents today and in the years to come, who's going to be responsible for our aging population? It will certainly be the younger individuals. So they have many vested interests in making sure that the program is solvent and that it is a good program that's going to last for years to come.

Since many women stay at home with their children and/or go in and out of the work force more frequently than men, their Social Security earnings are affected. They juggle the demands of family and work, and they're penalized down the road when their benefits are calculated. That's unacceptable to us. Maybe we didn't realize in years before when Social Security was first developed, but there's no excuse now that we do know it that we don't do something about it.

I receive many letters from constituents about Social Security, and there's one that really stuck in my mind when it came across my desk. The letter reads, "Dear Senator Lincoln, I've been receiving Social Security for about 9 years now. We're doing fine financially until my wife got sick. For the last 3 years, she has been in and out of the hospital. We have lots of bills to pay. We've tried to get help, but we can't. We tried to get her on disability, but they said she couldn't because she hadn't had a job. She's been a wonderful wife and a tremendous mother to our two children over

these years. Maybe you people don't think this is an important job, but I do."

That's something that, if we are concerned about our children's future, if we're concerned about the emotional well-being of our future in this society, we must recognize all of the contributions that are made, not just in the work force, but in every area.

I'm eager to hear what our panelists have to say this afternoon and the discussion that we will have. If you will, please, give me the courtesy, Senator Breaux, of being able to have a few special thanks for all of those who have been instrumental in putting this on. A special thanks to the Pulaski Heights Methodist Church for allowing us to be in this facility. It's wonderful to be able to have something like this in our community. I also would like to introduce the staff from my Washington, DC. offices. They have been very instrumental and tireless in putting this field hearing together.

Michelle Prejean is a fabulous young woman working on the Aging Committee and on Senator Breaux's staff. She does a tremendous job. You all should know that there are some incredible staff in Washington that believe very deeply in what they're doing.

Gina Falconio works on the Senate Committee on Aging for Chairman Grassley. Senator Grassley has provided outstanding leadership on the aging issues, and he has been a fabulous Chairman to work with, and I appreciate very much what Gina has done.

Elaine Dalpaiz, Elizabeth MacDonald, and Chris Massingille are here from my Washington office. Betty Ruth Davis, Cynthia Edwards, Donna K. Madison, Charles Miller, and Stan Bradshaw all here from my Little Rock office. Our summer interns from the Little Rock office are here as well.

If you have questions, there are three field representatives from the Social Security office in Little Rock. I hope you will take advantage of them if we don't get time to answer all of the questions you may have. And be sure to contact our office as well.

Our Little Rock office just opened, and I want to invite Senator Breaux to visit it. It is a restored home in downtown Little Rock. It's a wonderful place, it's very accessible, and we hope you will come to see it.

Our discussion today will help us in share your ideas with our colleagues in Washington during the national debate on Social Security. And to you all we owe the greatest thanks, and that is for participating in this event today. So thank you, Mr. Chairman, I appreciate it, and I'll turn it back to you.

[The prepared statement of Senator Blanche Lincoln follows:]

PREPARED STATEMENT OF SENATOR BLANCHE LINCOLN

I am pleased to be here with you today in Little Rock for my first official Senate Special Committee on Aging field hearing to address the important issue of Social Security reform and its impact on women.

I am honored to be joined by my friend and fellow colleague on the Committee, Senator John Breaux of Louisiana. Senator Breaux is an expert on Social Security and recently introduced his own Social Security reform proposal, which he can talk more about today.

During my Senate campaign, Social Security and its impact on women was one of the most important issues Arkansans wanted to discuss.

As one of only two female Senators on the Special Committee on Aging, I feel a personal sense of commitment and responsibility to educating women on Social Security.

Everyone agrees that changes need to be made to the Social Security system to ensure its stability in the future, but women have a particularly important stake in making sure that any changes to Social Security are carefully considered. Why? Because women live longer than men. Women earn less over their working years and women age 65 and older are twice as likely to live in poverty than men of their age group.

Interestingly enough, the debate about Social Security reform is terribly important to younger, working women in terms of their future financial security.

Since many women stay home with their children and/or go in and out of the workforce while they juggle the demands of family and work, they are penalized down the road when their benefits are calculated.

I receive many letters from constituents about Social Security and there is one that really struck a chord with me.

The letter reads, "Dear Senator Lincoln, I have been on Social Security for 9 years. We were doing fine financially until my wife got sick. For the last 3 years she has been in and out of the hospital. We have lots of bills to pay. We have tried to get help but we can't. We tried to get her on disability but they said she couldn't because she hadn't had a job. She has been a wonderful wife and mother to our two children. Maybe you people don't think this is an important job, but I do." I am eager to hear what our panelists have to say this afternoon.

Our discussion here today will help me share your ideas with my colleagues during the national debate on Social Security reform.

Senator BREAUX. Thank you very much. I'm going to ask you to help introduce our first two witnesses, but I would observe that, as we talk about problems with women and Social Security, that all of our staff behind us are, in fact, women. So we have a real pipeline to the problems and ideas about what we should be doing about it. We're very proud of them.

I also want to add my thanks for all of the people who helped put it together, because it's always difficult getting people to come out, and I want to congratulate all of you for the great turnout we have today. This is indeed a very fine showing from the people of the Little Rock area and Arkansas, and even some, I think, from Louisiana. We thank you for being with us.

So having said that, Senator Lincoln, why don't you go ahead and present our first two witnesses.

Senator LINCOLN. Well, we're very proud of our witnesses today. I think they will bring two very important perspectives to this discussion. Nevada Glass is 87 years young, and she lives in Holly Grove in Monroe County, AR, which is where the Lamberts came from seven generations ago. Her father was a sharecropper who died when she was six, but her mother made sure that she got an education.

After attending Philander Smith College in Little Rock, she began teaching school. Like many women of other generations, she spent time out of the work force to care for her family. Ms. Glass has lived through some of the major social events of the century: The Great Depression, the enactment of the Social Security and Medicare Act, the mechanization of agriculture, and changes in racial relations in this country, as well as the women getting the right to vote. So she can share with us a tremendous perspective.

Ms. Glass works part-time 4 days a week in the Green Thumb Older Workers Program at the Monroe County Courthouse. Ms. Glass lives by herself on a four-acre farm keeping house, cooking, gardening, keeping chickens and two dogs. She is active at her church and in the AARP. We're delighted to hear from her today.

Senator BREAUX. Thank you.

STATEMENT OF NEVADA GLASS, HOLLY GROVE, AR

Ms. GLASS. I am happy to have the opportunity to be on this program to talk about Social Security. My name is Nevada Glass. I am 87 years old, and I live in Holly Grove, AR. I was born and raised on a farm in Monroe County, the youngest of twelve children.

I never knew my grandparents, but there was older elderly people living around us. When they got too old to farm, they had no income, so they lived with their families. Some of them still went out into the field and worked with their families. President Roosevelt did a good thing when he started Social Security.

I've worked hard all my life but I did not get a pension and was not able to save money. So Social Security is very important to me. I started teaching school in 1929 during the Depression, and we nearly starved. Teachers was paid—was not paid very well, and black children only attended school 2 months out of the year. I taught school off and on for 14 years.

My husband was a farmer who sharecropped sixty acres. He never earned much, but he did pay into Social Security. I quit teaching in 1960 to stay home with my family. My husband had sugar and had to quit work. He got his Social Security check, but only \$40. The children and I kept the big turnip patch to support ourselves and pay his medical bills.

When my husband died in 1971, we had no savings left, so our son and my husband's brother had to pay for his burial. You can see why we wasn't able to save for retirement, but we did invest in education. We sent two children to college and they both earned a degree.

I have never stopped working. I worked in private homes, and I worked at the Holly Grove Senior Citizen until it closed. Then I went to work at the Monroe County Courthouse in the Green Thumb Program because I wanted to stay active.

This year, I went to the Social Security office and told them I was ready to retire. The woman said, "Honey, you're already retired." But I'm still in Green Thumb working at the courthouse 4 hours a day, Monday through Thursday.

I live by myself in Holly Grove. I keep house, cook, garden, keep chickens and two dogs. I still drive and received a new car this year from the children, grandchildren, nieces and nephews. I have two surviving children and about forty grandchildren and great-grandchildren. I am active in my church. I am president of the AARP for my hometown, and I serve on the counsel of Medicare.

Because I'm still working and getting a little check from Green Thumb, my income is over the poverty level, and it's nice to have that extra income, but it keeps me from getting help from Medicare for prescription drugs and other bills. I have had three operations and I'm still paying on my medical bills. It sure would help if Medicare paid those prescriptions.

There are some thoughts about Social Security. Living in the Delta, I have seen how hard life can be even in a rich country like in the United States, I know people can live and farm and still go hungry. I remember when retired people did not have any money and depended on their families. I remember when people did not

go to the doctor. Without Social Security and food stamps, we would have to be—there would have to be a lot of hungry people down here today. Without Medicare and Medicaid, many people would not be able to see a doctor.

In my Bible it says to look after the widows and orphans. This is what I like about Social Security. After a worker dies, it pays the survivor benefits to the spouse and children, and disabled workers can get a check too.

Social Security is especially important to women. Most women work in jobs. They pay less and they take time out from work to care for their children, their parents, or other relatives, just like I took time off from teaching to raise my children and to care for my sick husband. So women earn less and save less for retirement. Then not only do women earn less, but we live longer because women live longer than men. We need to know that our income will continue our entire lives and keep up with the demands in prices. We depend on our cost-of-living increase every year. I could not get by if my check was the same as it was in 1965 and 1997.

We need to make sure our children and young people are getting a good education. If they do not prepare themselves now, there will be trouble for them tomorrow. Even if a family cannot money in the bank—cannot have money in the bank, they need to invest in educations.

Social Security and Medicare helps me have comfort, security, help in my old years. I do not know how I would have gotten by without them. My life has been hard, but it has been rewarding. I have learned that it pays to stay with the Lord. Thank you.

[The prepared statement of Nevada Glass follows:]

Testimony of Nevada Glass
The Impact of Social Security Reform on Women
Little Rock, Arkansas
June 1, 1999

My name is Nevada Glass and I am 87 years old. I live in Holly Grove in Monroe County, Arkansas. I was born and raised on a farm in Monroe County, the youngest of 12 children.

I never knew any of my grandparents. The elderly people living around us, other sharecroppers, didn't have any income when they couldn't farm any more, so they lived with their families. Some of them went out in the fields and worked with their families. President Roosevelt did a good thing when he started Social Security.

I've worked hard all of my life, but I didn't get a pension and wasn't able to save money, so Social Security is very important to me. I started teaching school in 1929, during the Depression, and we nearly starved. Teachers were not paid very well, and black children only attended school two months out of the year. I taught school off and on for 14 years.

My husband was a farmer, who sharecropped 60 acres. He never earned much, but he did pay into Social Security. I quit teaching in 1960 to stay home with my family. My husband had diabetes and he had to quit working. He got a Social Security check, but only \$40. The children and I kept a big turnip patch to support ourselves and pay his medical bills.

When my husband died in 1971, we had no savings left, so our son and my husband's brother had to pay for his burial. You can see why we weren't able to save for retirement. But we did invest in education. We sent 2 children to college, and they both earned degrees.

I have never stopped working. I worked in private homes. For several years I worked at the Holly Grove Senior Center until it closed. Then I went to work at the Monroe County Courthouse in the Green Thumb program, because I want to stay active.

This year I went to the Social Security office and told them I was ready to retire. The woman said, "Honey, you're already retired." But I'm still in Green Thumb working at the Courthouse, 4 hours a day, Monday through Thursday.

I live in my home on four acres of land, which was given to me by my brother. I keep house, cook, garden, keep chickens and two dogs. I still drive and I received a new car this year from my children, grandchildren,, nieces, and nephews. I have 2 surviving children and about 40 grandchildren and great grands.

I'm active in my church, I'm President of AARP for Monroe County, and I serve on the Council of Advisors for CareLink, our Area Agency on Agency.

Because I have worked so long past 65, and because I still work and get a little check from Green Thumb, I pulled my income up over the poverty level. It's nice to have that extra income, but it keeps me from getting help from Medicaid for medical bills that Medicare doesn't cover.

I've had 3 operations and I'm still paying on my medical bills, and I have prescriptions that I have to buy. It sure would help if Medicare paid for prescriptions.

Here are some thoughts about Social Security. Living in the Delta, I've seen how hard life can be, even in a

rich country like the United States. I know people can live in farm country and still go hungry. Without Social Security, SSI, and Food Stamps, we'd have a lot of hungry people down here today.

In our Bibles it says to look after the widows and orphans. That's one thing I like about Social Security. If a worker dies, it pays survivors' benefits to the spouse and children. And disabled workers can get a check too.

Social Security is especially important to women because we tend to earn less while we're working. Most women work in jobs that pay less, and take time away from work to care for their children, their parents, or other relatives just like I took time off from teaching to raise my children and care for my sick husband. So women earn less and save less for retirement than men.

Not only do women earn less, but we live longer. Because women live longer than men, we need to know that our incomes will continue our entire lives, and keep up with rising prices. We depend on our cost-of-living increases every year. I couldn't get by if my check was the same as when I turned 65 in 1977.

Social Security and Medicare helped me have comfort, security, and health in my older years. My life has been hard, but its been rewarding. I've learned that it pays to stay with the Lord. Thank you.

Senator LINCOLN. Thank you so much, Ms. Glass. These are the types of situations that we want to focus on, and we have another new perspective here from Penny Collins.

Penny is a 29 year old single mother, and lives in Judsonia, AR. She is currently a job development specialist and coordinator of the Cooperative Education Program at the University of Arkansas at Little Rock. She also serves as president-elect of the Arkansas Business and Professional Women's Organization here in Arkansas. In addition to caring for her 11 year old, Eric, Ms. Collins attends law school at night at the University of Arkansas at Little Rock.

Ms. Collins is also very involved in her community. She serves on a number of boards and volunteers her time regularly in the public schools. She prioritizes, obviously, and makes time for the important things in life. So thank you, Penny, for being here.

STATEMENT OF PENNY COLLINS, JOB DEVELOPMENT SPECIALIST AND COORDINATOR, COOPERATIVE EDUCATION PROGRAM, UNIVERSITY OF ARKANSAS, LITTLE ROCK

Ms. COLLINS. Thank you, Senator Lincoln.

Good afternoon. I would like to thank Senator Lincoln and Senator Breaux for allowing me to testify regarding the topic of Social Security and women.

As the Senator has told you, I am a 29 year old single mother, and I have been divorced for just under 2 years. I'm very concerned about my immediate future, as I work a full-time job and attend law school part-time using my earnings and student loans to pay tuition. Today, I'm concerned about the increasing cost of day care, medical insurance premiums, and education.

It's challenging to find affordable, quality day care for my son who is reaching the age where a typical day care center is no longer practical. For, you see, he isn't quite old enough to stay home by himself, yet he is too old to attend most typical day cares. This creates additional costs for his care.

With monthly expenses on a constant rise, there is little money left to invest in retirement savings. While I am fortunate enough to work for an entity that provides a pension plan, I am not able to maximize my savings potential by personally contributing to my retirement fund. Today, I have relied solely upon the contribution of my employer to build this account. This is due to my choice to use the money that I would normally put into savings to use it for financing my education. This is a scary choice for me. I know the importance of furthering my education, but at the same time, I am concerned that the money that I have contributed to the Social Security system would not be available as a supplement should my retirement planning fall short of my cost of living upon retirement.

I look at my 71 year old grandfather who has worked hard and saved for retirement, but even with the very best of planning still depends on Social Security as a supplement to his income. Because he was self-employed, he did not have a pension plan. His retirement income is a result of his and my grandmother's savings from over the years. And as many older individuals, he relies solely on Medicare for medical coverage.

My generation could be impacted twice as hard as any other generation with regard to Social Security. Reports show that, without

any change to existing law, full benefits can only be paid until year 2034. I am not eligible for Social Security until year 2035. My generation stands the chance of receiving reduced Social Security benefits, and at the same time, our own parents might be relying on us for financial assistance. It will be incumbent upon us to help them make ends meet or be forced to watch them live out their retirement years in financial hardship.

When I look at my paycheck and I see how much Social Security that I am paying, I have an uneasy feeling about how that money is going to be invested and whether it will be available to me upon retirement. I want Social Security maintained in a system that provides stable growth, but one that is not volatile and risky. Social Security reform should result from carefully thought-out and thoroughly debated measures to insure that individuals can face a livable retirement, not an impoverished one.

In closing, I would like to, once again, thank you and commend your efforts in focusing on this critically important issue. The implications of Social Security are far reaching, indeed intergenerational.

Thank you for your attention to my remarks.

[The prepared statement of Penny Collins follows:]

Testimony of Penny Collins
The Impact of Social Security Reform on Women
Little Rock, Arkansas
June 1, 1999

I would like to thank Senator Lincoln and Senator Breaux for allowing me to testify on the topic of Social Security and women.

I am a 29-year-old, single mother and have been divorced for just under two years. I am very concerned about my immediate future as I work in a full-time job and attend law school part-time using my earnings and student loans to pay tuition. I am also concerned about the increasing costs of daycare, medical insurance premiums and education. It is challenging to find affordable quality day care for my son who is reaching an age where a typical daycare center is no longer practical. He isn't old enough to stay by himself yet he is too old to attend most typical daycare centers. This creates additional costs for his care. With monthly expenses on a constant rise, I have little money to invest in retirement savings at this point in time.

While I am fortunate enough to work for an entity that provides a pension plan; I am not able to maximize my savings potential by personally contributing to my retirement fund. To date, I have relied solely upon the contributions of my employer to build the account. This is due to my choice to use money that would normally go into savings to help finance my education. This is a scary choice for me to make. I know the importance of furthering my education but at the same time I am concerned that the money that I have contributed to the Social Security system will not be available as a supplement should my retirement planning fall short of my cost of living upon retirement.

I look at my 71-year-old grandfather who has worked hard and saved for retirement but even with the best of planning still depends on social security to supplement his income. Because he was self-employed he did not have a pension plan. His retirement income is a result of his own savings form over the years. And as many older individuals, he relies solely on Medicare for medical coverage.

My generation could be impacted twice as hard as any other generation with regard to social security. Reports show that without any change in the existing law, full benefits can be paid only until 2034. I am not eligible until 2035. My generation stands the chance of receiving reduced Social Security benefits. At the same time, our own parents might be relying on us for financial assistance. It will be incumbent upon us to help them to make ends meet or we may be forced to watch them live out their retirement in financial hardship.

When I look at my paycheck and see how much Social Security I am paying, I have an uneasy feeling about how that money is going to be invested and whether it will be available for me upon retirement. I want Social Security maintained in a system that provides stable growth but not one that is volatile and risky.

Social Security reform should result from carefully thought out and thoroughly debated measures to ensure that individuals can face a livable retirement not an impoverished one. In closing, I would like to once again commend you for focusing attention on this critically important issue. The implications are far-reaching -- indeed, inter-generational. Thank you for your kind attention to my remarks. I'd be pleased to take any questions you may have.

Senator BREAUX. Thank you very much, both of you, Ms. Glass and Ms. Collins. You have both given us two viewpoints which are very, very important; one from a person who has been around a while, and another from a person who is a young adult struggling to make ends meet.

Ms. Glass, I want you to know up in the Senate, we don't think that you're that old yet. Senator Strom Thurmond is 10 years older than you are, and he's still serving in the U.S. Senate. I'm delighted to see that you are still very, very active, and that keeps you young, and we're very proud of your service with AARP. I think the point you made is that, really, without Social Security, you wouldn't be able to hardly survive, right?

Ms. GLASS. I probably wouldn't.

Senator BREAUX. It would be tough for you to survive if you didn't have your Social Security check. Yet, Ms. Collins—Penny makes a point about how people in her generation who are working today and paying their payroll tax for the people who are the beneficiaries, also find it very difficult because of the amount of payroll tax that you pay. It's interest to note that 80 percent of American families pay more in payroll tax than they pay in income tax. Eighty percent of the families in our country pay more in payroll tax than they pay in income tax. It's particularly hard for people in middle and lower-middle income brackets who pay in the payroll tax—actually pay more in the payroll tax than they pay in income tax. The fact is that we have so many more people who are retired and fewer people working to pay for those benefits.

When Franklin Roosevelt passed Social Security back in 1935, it's interest, there was sixteen people working for every one person who was retired. Sixteen people working everyday paying the payroll tax for every one person that was retired. Today, there are three people working, just three, for every one person who is retired, because there are more retired people and they live a lot longer. So the ratio has gotten down to it's only three people working in this country for every one person who's retired.

And the real problem that we face is that we have forty million Americans on Social Security today, and we have some problems with it financially, but when Ms. Collins' generation begins eligibility for the program, they're going to add seventy-seven million more Americans on the program. So the real problem we have is, if we have a problem with forty millions Americans, you can imagine when most of your children and grandchildren become eligible, we're going to be adding seventy-seven million more people to the program. So we really are challenged about what we as a nation and what we as a society have to do.

Ms. Collins' generation, a lot of them lost faith in the Social Security. The polls tell us that more young people believe in flying saucers than they believe that Social Security will be there for them because they just don't think it will be. It's our challenge to make sure that it is, make sure it's as good as it is today, and make sure we do everything we can to make it even better.

So I want to thank them. I told this to Senator Lincoln, you couldn't have picked two better people, because, I mean, these are classic people who represent what we are facing, a person who is on the program now, and a person who is struggling to pay for the

benefits of the program for the generation that's on it right now. They really said it all. I really don't have any questions, I just want you to know that what they said is so very, very true. Thank you for them.

Senator, Lincoln.

Senator LINCOLN. Yes, sir. I just wanted to point out and reiterate some of what Senator Breaux mentioned, and that is that we've got fewer and fewer people putting into the system and more and more individuals are taking out of it. And it's critical to know that we've got to look at the reforms that are going to reflect those change in demographics.

But the other thing is that, as we look at a generation, and I'll be honest with you, I'm certainly closer to Ms. Collins' age than I am to Ms. Glass' age, and I look at it from both a legislative perspective and personal perspective. I do wonder what my investment is going to be when it comes time for me to draw it out, but I also strongly believe that we can do things that will make the Social Security program strong. And if we don't do it now, then we loose the opportunity. But it is going to be essential that we take some action to insure that, when my generation does get there, that Social Security is there.

If we give reason for the younger generation to pull out of the program now, not only are they not going to have Social Security down the road, but Social Security won't exist for current recipients like Ms. Glass.

Senator Breaux pointed out that eighty percent of families pay more in payroll tax than they pay in income tax. We've done a great deal in trying to bring down income taxes in different areas, whether it's for elderly care and other things, but there is a little more we can do there. But the important thing that I think we should point out is how absolutely dependent people are on Social Security.

I would just like to ask Ms. Glass one question, and that is, Ms. Glass, you mentioned that you're still paying for medical bills after these three operations that you had. And I was wondering, approximately, how much disposable income do you have left over at the end of the month for necessities, like food and rent?

Ms. GLASS. Very, very little bit.

Senator LINCOLN. So you're still paying on those medical bills as well as prescription drugs?

Ms. GLASS. Yes, I am.

Senator LINCOLN. We certainly don't want to put seniors in that position where they're having to choose from paying their medical bills as well as providing for themselves nutrition, which is a big part of elderly care.

How many of your friends—out of curiosity, in your community there in Holly Grove, how many of your friends depend on Social Security, and are their situations similar to yours?

Ms. GLASS. I can only speak for two that I know that live close to me, similarly have some of the same problems that I have.

Senator LINCOLN. And do you still work with the Green Thumb Program?

Ms. GLASS. I still work with the Green Thumb and intend to continue until they say, "well done."

Senator LINCOLN. That's great.

Ms. COLLINS, I just—one of the things I can say to you is, I share a lot of your concern. With two small children as well as seeing my paycheck dollars going into Social Security and the juggling of time and other things, one of the big issues we have really been faced with is child care. That's one issue we will continue to be focused on the U.S. Senate, and I will certainly be actively involved in that.

What would you say that your out-of-pocket expenses are for child care?

Ms. COLLINS. Senator, of course, during the summer months, it's an even bigger problem with a school child, and you can easily pay out \$300 a month, which is equivalent—more than my car payment, actually. So that sort of hits hard, but that also includes some activity fees because the child is onsite with a day care center so long during the day that they have other activities, and those fees are above and beyond the actual day care expense.

Senator LINCOLN. I know—and this is coming from my own experience. If you did have extra income to invest and you had time to invest it, how much do you know about the stock market in order to be able to do that?

Ms. COLLINS. I only have the knowledge that I've gained from dealing and working with my own pension through my employer, which is relatively little. And I think I would—at this age, I would feel more comfortable in looking at some investment options for that. But as I get older, of course, you want to stay away from risky investments, and I think I would want to enlist the assistance of a professional, by all means, because my knowledge is very little in the stock market.

Senator LINCOLN. I agree in terms of those investments. You mention the pension plan, how much are you involved in that? Do you have much involvement in where your money is invested through that pension plan?

Ms. COLLINS. You do get to have some selection over how much of the stocks and bonds are in your current pension plan yourself. Right now, mine is in a more aggressive growth fund. As I get older, I will put it in a less aggressive program.

Senator LINCOLN. The Federal program that we participate as Federal employees in is much the same, the Thrift Savings Plan. I have to say I am extremely cautious, and I had my investment in a really cautious plan until my husband figured it out. He got hold of me and said, you really—you need to be a little bit better about this until we get really old, Blanche. And I was thinking, well, I'm really old now. So I know exactly where you're coming from on that, and that's an important point for us as working women to understand.

Thank you, Mr. Chairman. Thank you ladies both.

Senator BREAUX. Thank you all very much. You all are excused. And with your testimony, I think they deserve a hand.

We would like to—as these witnesses take their seats, and we're delighted to have their testimony, we want to introduce the next panel.

We're very delighted that we have someone from Washington who really helps run the Social Security program for the forty million Americans that I've talked about, and we would like to invite

her up to be part of our next panel, that is the Honorable Jane Ross. She is the Deputy Commissioner for Policy in Washington, DC. for the Social Security Administration. These are the people that look at the program as to what it should be doing and how it's doing it, and what they can do to improve it. So she will be speaking for the Social Security Administration in her testimony.

Senator LINCOLN. We would also like to welcome Dr. Larry Holland who earned a Ph.D. in finance from Oklahoma State University and joined the faculty of University of Arkansas at Little Rock as an assistant professor of finance in 1995.

Dr. Holland worked for 21 years in the oil industry before entering academia. He began his career as a chemical engineer. Before he left the private sector, he was in charge of the accounting planning and administrative services for the computer division of a large, multi-national corporation.

Recently, Dr. Holland received both the Excellence in Teaching Award at the College of Business at UALR and the MBA Distinguished Graduate Teaching Award there at UALR. So we're very proud of him for that.

Dr. Holland also has an active research agenda. He and his colleague at UALR, Dr. Eric Elder, have co-authored two working papers on the reform of Social Security focusing on the investment of a portion of the Social Security Trust Fund in the stock market.

Welcome, Dr. Holland.

Senator BREAUX. I want to introduce our third panelist. We have some real brains up here. These are really some of the brightest and smartest that we could possibly find.

Dr. Theresa Devine is our third panelist. She is a principle analyst at our Congressional Budget Office which looks at these types of programs as to how it affects the Federal budget. Prior to serving in that capacity, she served on the faculty of the economics department at Penn State University where she was named outstanding faculty woman of 1989. She has held post-doctoral fellowships at the University of Chicago, American Bar Foundation, and the Census Bureau, and has taught at the University of—Cornell University, the University of Chicago and the University of Michigan.

She earned her Ph.D. in economics from Cornell University in 1988. Her past research has covered topics including labor market research, self-employment, and the economics and eligibility rules for our social welfare programs. Presently, she is studying, and this is right on target, the impact of potential Social Security reforms on women. In addition, she is also studying alternative ways to reduce poverty among older women and outcomes for women under the Welfare Reform Program that Congress just enacted a couple of years ago.

So we are delighted to have all three of our panelists and look forward to their testimony.

Ms. Ross, I guess you need to go first. We're pleased to have you.

**STATEMENT OF JANE ROSS, DEPUTY COMMISSIONER FOR
POLICY, SOCIAL SECURITY ADMINISTRATION, WASHINGTON,
DC**

Ms. ROSS. Thank you very much. Thank you, Mr. Chairman and Senator Lincoln, for the opportunity to talk with you today about the importance of Social Security to elderly women.

What you're doing here today is so important to help citizens increase their understanding of the current system and also of options for reform and the need for reform. But I must say I think you have great help from your own constituency here, particularly Nevada Glass and Penny Collins, in terms of being able to actually give a feel for what the issues are. I can give a little bit of understanding about some of the issues and options.

First of all, I want to outline some of the important features of Social Security that actually contribute to the well-being of today's elderly women. Next, I wanted to talk about the relationship between Social Security and poverty among elderly women, and then talk a little bit about the President's framework for moving forward on reform.

As you know, Social Security is our nation's family protection program. It's protection against the loss of income when a worker retires or dies or becomes disabled. Certainly, no program has had a more important impact on the lives of older women. As you can see from this chart that's up here in the middle of the stage, Social Security benefits are the major source of income for two-thirds of all retirees, and these benefits are virtually the only source of income for one in three retirees. That gives you some clue as to how important Social Security is.

But looking at it even more, families with low lifetime earnings rely on Social Security for most of their income. Among the poorest twenty percent of the elderly, half of them have nothing else to live on but Social Security. So along the bottom twenty percent of the elderly who were low earners during the time they were working, half of them have nothing else but Social Security. As we know, women are more likely to have lower earnings than men. So this is especially important for women.

The benefits are, again, particularly important for unmarried elderly women. By that, I mean, divorced women and women who never married, but also widows who come into widowhood sometimes after they've actually been retired. Social Security accounts for virtually all of the income of forty percent of these unmarried elderly women, and it's the only source for a quarter of these unmarried elderly women.

This is just a display of a few facts that may help us appreciate the especially important role that Social Security now plays in the lives of older women. It happens to be this way because many older women have little other income in retirement. They don't have nearly as much pension and assets as other individuals do. Pensions can be important for elderly women, but they're very unlikely today to receive them. Now, this may change in the future because women will be working more and they'll gain some of their own pension protection. Nonetheless, pensions tend to be related to how much people earn, and since women earn less, their pensions will continue to be less even when they earn them.

Women in the future will be helped by some legislation enacted in the pension area that requires that a husband take a reduced pension in order to provide survivor benefits unless both the husband and the wife agree otherwise. That dependent protection will continue to be very important for women in the future. As you know, women also lack asset income. It's a common source of income for a lot of the elderly, but it's very uncommon among elderly women.

Having talked a little bit about how vulnerable our female population is in its elder years, let's talk just briefly about some of the things about the Social Security system that are especially important for women right now. First of all, Social Security provides guaranteed inflation-protected benefits that keep up with the cost of living, and that's very different than a lot of pensions and annuities which tend not to be inflation adjusted. As Nevada Glass already said, this inflation adjustment is especially important to women because women tend to live longer, and they may actually use up their other assets, especially their savings. Furthermore, Social Security is guaranteed. It doesn't run out. It doesn't matter if you live to be 115 or whatever, you can't run out of Social Security.

A second feature of the Social Security system is that the benefits formula is progressive. That means that Social Security replaces a higher percentage of earnings for low earners than for high earners. Now, we know that people with low earnings tend to be women. This feature was designed to protect people with low earnings because they are so unlikely to have earnings from other sources.

Women, as we've already heard, have low earnings for a couple of reasons. One, they have shorter working careers. Two, tend to earn less than men when they do work. So this progressive benefits formula is really essential for women as workers. But one of the key reasons that Social Security is important to women is the provision of dependent benefits.

Women can receive benefits, as you know, based on their own record, but they also can receive benefits as a spouse if that amount is higher. In 1997, about a third of women were receiving benefits on their own record and about two-thirds were receiving benefits on the record of a spouse. Now, you say, well, more women are working, they're earning more, they're staying in the work force longer, so that's going to change, and indeed it is. But even when it does, we're projecting that by the middle of the next century, forty percent of women will still be drawing some part of their Social Security based on their husband's earnings, which means that dependent benefits will continue to be something to be careful about and pay a lot of attention.

Just before closing, I would like to take a minute to talk a little bit about what the President had in mind in terms of how to fix the Social Security solvency issue. Both Senator Lincoln and Senator Breaux already referred to that. As you know, the reason we're having a Social Security financing problem is because more people are living to retirement and that people are living longer numbers of years in retirement. That's the good news. This is a problem of a well-off society. But we still have to pay for it.

The President has proposed the following kind of framework, and maybe we can come back to it later in questions. The President wants to transfer some of the surplus which we're now experiencing in the Federal budget and transfer that into the Social Security system over the next fifteen years. He would like to invest a part of this surplus also in the private sector in order to get increased earnings into the Social Security system. And he also has asked that we have a bipartisan discussion about the ways to finish closing up the deficit that we have in a bipartisan kind of way, similar to what Senator Breaux has done with his proposal.

The President also has proposed having USA accounts, which, in addition to Social Security, are a way for people with lower earnings to save more. So this is a way for us to get around this issue that low earners tend to have low savings.

As President Clinton has said, now is the time for action on retirement issues. If we take time for action now when there isn't a crisis, when we enjoy the first budget surplus we've had in a generation, we can prevent a crisis from ever occurring. If we delay the action now and go on for another generation, the financing problem will be a lot more difficult to resolve. So we have this historic opportunity to act and we can't let it slip away.

Again, I applaud the Senate Aging Committee for raising public awareness of this issue, and I want to assure you that, if there's any way we can continue to help you on these issues, we're delighted to do so. Thank you.

[The prepared statement of Jane Ross follows:]

Testimony
of
Jane L. Ross, Deputy Commissioner for Policy,
Social Security Administration
before the
Senate Special Committee on Aging
Little Rock, Arkansas
June 1, 1999

Today I will outline for you the importance of Social Security to elderly women and discuss some of the most important features of Social Security that contribute to their economic well-being. Then I will discuss the relationship between Social Security and poverty among elderly women, and the President's framework for Social Security reform. Then, of course, I would be happy to respond to your questions.

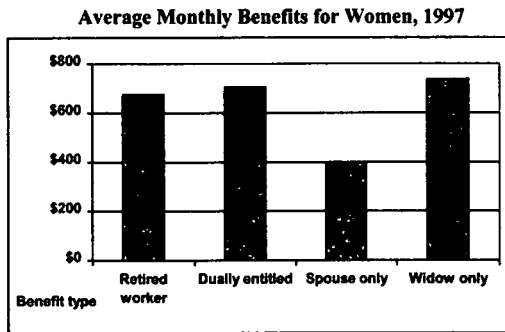
Importance of Social Security

For 60 years, Social Security has provided a solid floor of financial protection in the event of a worker's retirement, death or disability. It has allowed the great majority of Americans to retire with the dignity that comes from financial independence, without fear of poverty or reliance on others.

It is impossible for me to imagine a government program that has had a more positive impact on the lives of older women than Social Security. There can be no doubt -- Social Security is a vitally important element in the retirement income security of our sisters, our mothers, our grandmothers, and our great grandmothers.

Let me share some facts with you. In December 1997, there were 19 million women aged 65 and older receiving Social Security benefits, compared to 13 million men aged 65 and older. More than one-third of these women are protected on the basis of their own earnings in Social Security covered employment; monthly benefits average \$650 for these women.

Under the Social Security dual entitlement provision, if a retired worker is eligible for higher benefits as a spouse or surviving spouse, then that higher amount is paid. Another third of these aged women were dually entitled to higher benefits as a spouse or widow. Not surprisingly, the average benefit paid to this group is higher -- approximately \$700 a month. That leaves the remaining third receiving benefits only on the basis of another worker's earnings as spouses or widows. Spouses receive, on average, \$400 a month; widows, on average, \$730 a month.



Source: Social Security Bulletin, Annual Statistical Supplement, 1998, Table 5.A15.

But these numbers tell only part of the story; they don't tell us how important Social Security benefits are, particularly for nonmarried aged women beneficiaries. This group includes divorced women, widowed women, and women who never married. The facts are astonishing:

Social Security is the *major* source of income (50 percent or more) for three-quarters of nonmarried aged women beneficiaries.

Social Security contributes *90 percent* of income for two-fifths of nonmarried aged women

Social Security is the *only* source of income for 25 percent of nonmarried aged women.

And we also want to keep in mind that when aged women come on the Social Security rolls, they tend to stay with us longer than men do. Women reaching age 65 this year are expected to live an *average* additional 19 years, compared to 16 years for men.

Provision of Dependent's and Survivor's Benefits

The provision of Social Security dependent's and survivor's benefits is particularly important for women.

In 1939, in order to improve benefit adequacy, Congress enacted legislation that provided wife's benefits equal to one-half of the worker's benefit and widow's benefits equal to three-fourths of the worker's benefit.

A spouse's benefit is offset dollar-for-dollar against that person's own worker's benefit. The rationale for this provision is based on the idea that women who are eligible for

benefits based on their own earnings cannot be considered completely dependent on their husband's earnings for support, and therefore should not receive a full wife's benefit in addition to their own worker's benefit. The same rationale applies to surviving spouse's benefits.

Since 1939, benefits have been added for disabled widows, divorced wives and surviving divorced wives.

Improvements in the Program

In the last 30 years, total income has risen by about 95 percent, after adjusting for inflation, for elderly women. Social Security has played a prominent role in the income increases of older women over the past three decades.

Much of this is due to legislation enacted by Congress to improve protection for certain dependents and survivors. For example, there have been significant changes in widow(er)'s benefits:

In 1961, the widow's rate was raised from 75 percent of the worker's benefit to 82 ½ percent.

In 1968, benefits for disabled widows were added to improve protection for this vulnerable group.

In 1972, Congress raised the widow's full benefit rate to 100 percent of the worker's benefit.

Benefits for disabled widows were raised in 1983 from as little as 50 percent of the worker's benefit level to 71.5 percent.

Protection for divorced women has been added and then expanded, as well:

Divorced wives and widows first became eligible for benefits in 1965, but there was a dependency requirement and a 20-year length of marriage requirement.

In 1972, the dependency requirements for divorced women were removed.

In 1977, the length of marriage requirement was reduced from 20 years to 10.

Beginning in 1985, divorced spouses could become "independently entitled" to benefits. That is, they could receive benefits based on the earnings of an eligible

former spouse even if the former spouse had not applied for benefits or had benefits withheld under the annual earnings test.

Today, divorced women aged 65 or older—who at one time received no Social Security recognition for their years of marriage—receive an average of \$400 per month as divorced spouses and \$750 as divorced surviving spouses. At a time when one of every two marriages ends in divorce, this protection gains added importance.

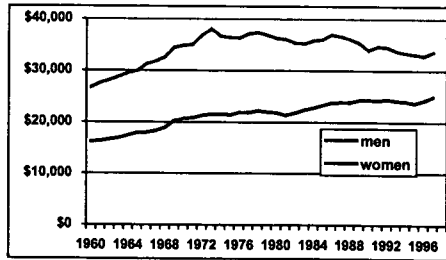
And the importance of the automatic cost-of-living adjustments, enacted in 1972, cannot be overlooked when we think about improvements in retirement income security for elderly women. Women's greater life expectancy makes benefit indexing especially important. For example, without indexing, a \$100.00 payment that began in 1975 would have declined in value and, 20 years later, would have the same purchasing power as \$33.00 in 1975.

Progressive Benefit Formula

I'd also like to take just a minute to discuss the weighting in the Social Security benefit formula. Social Security benefits have been "tilted," if you will, in favor of low earners, since the 1935 Act. The weighting is part of the redistributive nature of the program.

This feature is very important to women, for two reasons. The first has to do with women's paid work patterns. Women, on average, earn less than men. The median earnings of full-time, full-year working women in 1997 was \$25,000 compared to \$34,000 for men—or approximately 75 percent. Women have historically earned less than men; the gap is narrowing, and we expect it to continue to narrow—but let me be truthful, the gap it is not expected to disappear entirely.

Women's Earnings Have Increased But Remain Lower than Men's in 1997



*1997 dollars

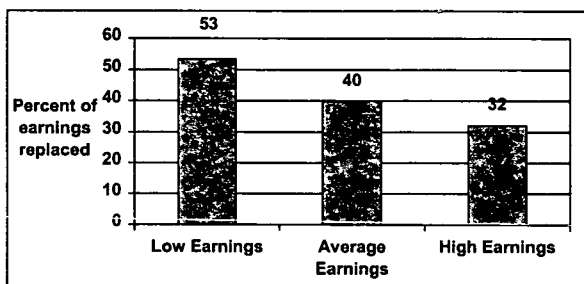
Source: U.S. Census Bureau, Historical Income Tables – Persons, Table P31.

Also, women have different labor force participation rates than men. The labor force participation rate for people age 25-64 was 72 percent for women compared to 88 percent for men in 1996. More recent cohorts of women have entered the workforce at younger

age than in the past and have maintained a consistently higher participation rate. However, women are not expected to reach the same level of participation as men.

So women tend to have shorter careers, and earn less when they do work, than men. And that means that, when it comes time to compute their Social Security retirement or disability benefits, a larger portion of their total average earnings winds up in the bottom, or 90% bracket, of the benefit formula. Therefore, on average, replacement rates (benefits as a percentage of preretirement earnings) are higher for women workers who are more likely to have lower earnings than men. As the chart below shows, workers who had steady low earnings¹ have more of their pre-retirement income replaced than workers with high earnings.

Greater Income Replacement for Low Wage Workers



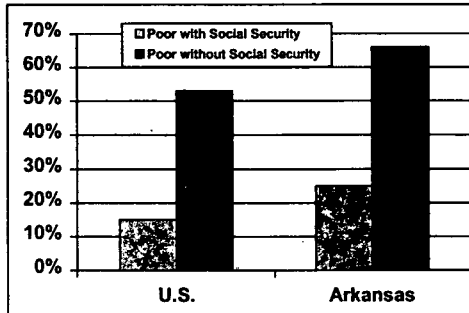
Source: 1999 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds, Table III.B5

Relationship between Social Security and Poverty

We can be proud of the fact that more than 40 percent of the aged are kept out of poverty by their Social Security benefits. With Social Security, only about 9 percent of beneficiaries are poor. Without Social Security, half of all beneficiary families would be poor. Here in the great State of Arkansas, it is estimated (by the Center on Budget and Policy Priorities) that 79,000 elderly women are lifted from poverty by their Social Security benefits.

¹ Low earnings are equal to 45 percent of average (\$12,342), average earnings are equal to the national average wage (\$27,426), and high earnings are equal to 160 percent of the average earnings (\$43,882).

Poverty Rates of Elderly Women are Much Lower in 1997 with Social Security



Source: Center on Budget and Policy Priorities, 1999

Even though Social Security does a good job of keeping most elderly families above the poverty threshold, poverty rates vary greatly between different groups. For example, poverty rates are higher among nonmarried women than married women beneficiaries.

Only 5 percent of aged married women are poor; in contrast, 22 percent of divorced, 20 percent of never-married, and 18 percent of widowed women age 65 and older are poor.

Widows account for the largest proportion (68 percent) of poor aged beneficiary women. There are 1.4 million aged widows who receive Social Security benefits and have family incomes below the poverty line.

We realize that income security remains an elusive goal for many elderly women. We are constantly striving to improve our programs in order to better serve those who depend on them.

Pensions and Assets

Even though Social Security benefits are at historically high levels, women often lack other sources of income that they need to supplement their benefits. Asset income is the most prevalent supplement to Social Security benefits for the aged as a whole, but aged women are less likely to have such income at all. In 1996, 76 percent of married couples aged 65 or older had asset income compared to 55 percent for nonmarried women and men. In addition, the value of this asset income for women is less than that for married couples or nonmarried men. The median income from assets was \$2,663 for these married couples, compared to only \$1,146 for nonmarried women and \$1,202 for nonmarried men.

Pensions are also an important supplement to Social Security benefits. And there is good news and bad news. On the one hand, women's coverage rate has increased substantially; on the other hand, the coverage rate among men has suffered a slight decline.

For full-time private sector employees, in 1972, women had only a 38 percent coverage rate; by 1993, their coverage had increased to 48 percent. During this same period, the coverage rate for men decreased from 54 to 51 percent.

The increase in women's pension coverage has coincided with further increases in women's labor force participation rate. Thus, not only are more women working, more working women are securing their own pension protection.

While we are seeing improvements in pension coverage, aged women today are less likely to receive a pension in addition to Social Security. In 1996, 54 percent of married couples aged 65 or older had pension incomes compared to 30 percent for nonmarried women and 41 percent of nonmarried men.

Furthermore, pensions (and assets) are an insignificant source of income among lower-income elderly. Although pensions provide about one-fifth of all income among the aged, the great bulk of that money goes to higher-income couples and individuals. According to one recent study, 84 percent of all pension income among the aged goes to those in the top two-fifths of the income distribution; only 4 percent goes to those in the bottom two-fifths.

President's Framework

Before I close today I'd like to talk just a little about Social Security solvency. As you know, the program faces a long-range deficit of 2.07 percent of taxable payroll under the intermediate assumptions of the 1999 Trustees Report. Ensuring the long-range solvency of the Social Security program must be our number one priority as advocates for improving retirement income adequacy for elderly women. We have seen today that Social Security is fundamental to the economic well being of our aged population. That is why the President's framework to preserve and strengthen Social Security is so very important. The President has proposed three distinct actions to address the long-range Social Security deficit:

First, the President's framework provides for transferring amounts equal to 62 percent of projected federal budget surpluses over the next 15 years—about \$2.8 trillion—to the Social Security system, and using the money to pay down publicly-held debt.

Second, part of the transferred amount, but never more than 15 percent of the trust funds, would be invested in the private sector to achieve higher returns.

Third, the framework calls for a bipartisan effort to take further action to ensure the system's solvency until at least 2075.

The President's first two proposals would resolve more than half of the long-range funding problem and would extend program solvency through 2059.

USA Accounts

The President also has proposed a system of Universal Saving Accounts, which we call "USA's," outside of the traditional benefit structure, that would strengthen the savings and pension legs of our retirement programs.

The USA tax credit would be a progressive, voluntary retirement savings incentive that targets the largest incentives to lower and moderate income working families, who often find it hardest to save. Lower and moderate-income participants would receive an automatic government contribution, in the form of a refundable credit, deposited directly into their USA accounts to help them begin saving for retirement. Participants would receive a government match on their voluntary USA contributions (or 401 (k) contributions), with the largest amounts going to lower and moderate-income participants.

Given this progressive structure, women would tend to benefit more than they would in an account system based on a fixed percentage of earnings. In addition, the USA accounts would not divert funds from the existing Social Security program, a program of guaranteed benefits which protect women's retirement security.

Conclusion

The President is committed to helping elderly widows who typically have higher poverty rates than other elderly. Again, using Arkansas as an example, 48,000 elderly women are poor, despite their Social Security benefits. In his State of the Union address, the President made it clear that he wanted to address their situation as part of the effort to close the long-range deficit in Social Security.

As President Clinton has said, now is the time for action on retirement issues. If we take action now, when there is no crisis, when we enjoy the first budget surplus in a generation, we can prevent a crisis from ever occurring. If we delay action for a generation, the size of the financing problem would double. We now have an historic window of opportunity to meet the challenge we face today...and we can't let this opportunity slip away.

Again, I applaud the Subcommittee for raising public awareness of this issue. For its part, the Social Security Administration will be studying many of the questions being raised today, and we will keep the public apprised of our findings. Thank you.

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

Senator LINCOLN.

Senator LINCOLN. Just as a reminder for those of you all in the audience, there will be some time probably for questions. If you do have questions of Senator Breaux or me or of the panelists, I hope that you will write them down. The staff is there to help you and assist you with those questions. So we want you to be thinking of that as well.

Senator BREAUX. I'll just point out, as you know, we won't have time to get to all of the questions. We would like to take them back and try to respond to you from Washington to make sure that what you suggest and what you write is considered because it's important.

Mr. Holland.

STATEMENT OF LARRY HOLLAND, PH.D., ASSISTANT PROFESSOR OF FINANCE, UNIVERSITY OF ARKANSAS, LITTLE ROCK

Mr. HOLLAND. Senator Lincoln, Senator Breaux, I appreciate the opportunity to provide comments today about the reform of Social Security, particularly emphasizing the impact on women.

Let me say right up front, I have a great deal of respect for those in Congress who have proposed Social Security reform. This is a very complicated subject, and there are difficult choices with no easy solutions. I also wanted to express my support for public hearings such as this one. This will increase public awareness of the issues and provides some feedback. I especially want to thank you for including me in this worthwhile effort.

I specifically want to comment on two aspects of Social Security reform that are prominent in many proposals. These aspects are, one, investing a portion of the Social Security Trust Fund in the stock market; and, two, creating individual accounts. I want to first state that the advantages and disadvantages that I point out on investing in the equities market and individual accounts are clearly dependent upon the structure of the specific proposals. Some proposals will magnify these advantages and disadvantages, and some will lessen them.

First of all, nearly every proposal of reform of Social Security involves some form of investing a portion of the Social Security Trust Fund in the stock market. The idea is to provide a higher expected return for the given level of risk. This is a diversification advantage. A very important point is that investing in the stock market is a separable issue from individual accounts. The benefits of investing in the stock market can accrue whether or not the government or individuals control the investment choices. The higher expected return means that part of the projected shortfall in future Social Security benefits could be eliminated. This is a significant advantage for the Social Security system.

However, when you look at the total U.S. economy, not just Social Security, investing a portion of the Trust Fund in the stock market is not a totally painless solution. There is a secondary effect outside of the Social Security system. All else equal, interest rates would rise in the process and increase the Federal budget deficit, which also increases the total U.S. debt. The bottom line is that investing a portion of the Social Security funds into the stock market

does improve the projected funding of future Social Security benefits, but to some extent, it just shifts the burden of Social Security reform to the general taxpayer.

A second aspect often included in Social Security reform is the creation of individual accounts. Individual accounts means that a portion of Social Security funds will be identified as belonging to specific individuals. Each individual would then have control in terms of allocating funds from that account to different investment choices. This is a move toward a defined contribution plan.

A primary issue related to individual accounts is that a typical person is not very impressed by the average "moneys worth" return of about 1.8 percent per year in the current Social Security system. This is benefits received compared to contributions made. This low return usually provokes the idea that individuals can do better than that if they are given control through individual accounts.

This low return occurs because of two issues. First, early in the life of the Social Security system, many individuals received more benefits than their contributions would have justified. This immediately created a situation in that the Social Security was not prefunded. We're still faced with this unfunded situation, and this is the primary reason why the current system has such a low apparent return. Creating individuals accounts will not eliminate the cost of prefunding the current system.

Second, there is an income distribution element in the current benefit structure. Lower-income participants get a better deal than upper-income participant. Individual accounts would tend to unravel this income redistribution, and this has social and political consequences. The fundamental economic advantage of a defined contribution plan is that it can result in a more efficient allocation of resources for the economy and an allocation of wealth that more closely matches an individual's risk preference. In the long run, this could lead to a higher economic growth rate and a higher standard of living. However, maintaining an income redistribution and/or a guaranteed benefit program retains the spirit of the current Social Security system but it offsets some of these benefits of a more efficient allocation of resources.

Another issue is that in moving toward a defined contribution system, some of the risk in terms of achieving desired benefits is shifted from the government to individuals. Some individuals may happen to make poor investment choices compared to the average, or they may happen to retire when the value of their account is temporarily low. This unfortunate sector would then receive lower benefits than an average return would have provided. Thus, individual accounts lose the insurance aspect of spreading risk across individuals over time.

A final issue is that a defined contribution plan with individual control has a higher administration and transaction cost. Administration costs would be higher because of record keeping requirements and management fees. Transaction costs would be higher because of a loss of economy of scale. These costs would be higher the larger the number of investment options that are made available.

There's one last issue that I would like to comment on, and this relates to the so-called budget surplus. There has been much discussion of using the reported current budget surplus to support So-

cial Security and other important political issues. I want to speak against any additional spending justified by these surpluses. Let me make a simple statement, from a common sense point of view of the average person in the United States, there is no budget surplus in the current Federal budget. Let me give you a simple illustration to explain what I mean by that.

Suppose I look at my own personal budget and realize that I planned to spend \$20,000 more than my income over the next year. This could occur by simply running up my credit card balance. Suppose also that my parents loaned me \$127,000 of their retirement fund, but they clearly expect me to pay that back when they retire. Now, I can take \$20,000 of this money I borrow from my parent and pay off some of my credit card debt and still have \$107,000 surplus cash on hand. I could, of course, spend this remaining money, but I would have to pay that back to my parents at some time in the future. So that really isn't a true surplus. It represents the proceeds of an additional loan.

I could take this extra \$107,000 and pay off some of my private debt, for example, paying off the mortgage on my home. I could then claim that the level of my private debt went down, but I would still owe the same amount. The amount that my total debt would go up this year is still the \$20,000 that I overspend. It would be quite different if I spent any of the extra cash from the loan from my parents. The amount of my debt would then go up even higher for every dollar I spent.

This example shows exactly what is occurring in the current Federal budget, except now we're dealing with billion of dollars, not thousand of dollars. The 1999 Federal budget indicates that a budget deficit of \$20 billion of spending over receipts. This is called the on-budget deficit. However, Social Security is providing a loan of \$127 billion. This is the increase in the size of the Trust Fund. But this has to be paid back to future retirees.

Counting this additional \$127 billion from Social Security gives an apparent surplus of \$107 billion. This is called the unified budget surplus. If this apparent surplus is not spent, then the amount of privately held debt would be decreased by \$107 billion, but the combined level of U.S. debt will still increase by the original on-budget deficit of \$20 billion.

Every dollar we spend of the so-called budget surplus would increase the combined level of U.S. debt even further. On this basis, there is a budget deficit in 1999, not a budget surplus. So any discussion of using a so-called budget surplus this year, even for good causes, can be misleading to the average individual in the American public.

I should note that there are real on-budget surpluses projected to occur in about 3 years. It would be prudent, however, to recognize that these are projections, and there is no certainty they will occur.

I want to close my remarks by saying again that I appreciate the opportunity to comment on such an important issue as reforming the current Social Security system. This is particularly important in terms of protecting the retirement incomes of the economically disadvantaged which includes a greater proportion of elderly

women who depend primarily on the promised Social Security benefits. Thank you.

[The prepared statement of Larry Holland follows:]

Issues in Social Security Reform

by

Larry C. Holland
Assistant Professor of Finance
University of Arkansas at Little Rock

Field Hearing of the
U. S. Senate Special Committee on Aging
June 1, 1999
Little Rock, Arkansas

I appreciate the opportunity to provide comments today about the reform of Social Security, particularly emphasizing the impact on women. And let me say right up front, I have a great deal of respect for those in Congress who have proposed Social Security reform. This is a very complicated subject, and there are difficult choices with no easy solutions. And I also want to express my support for public hearings such as this one. This will increase public awareness of the issues and provide some feedback. I especially want to thank you for including me in this worthwhile effort.

Social Security has been very effective in reducing the poverty level of the elderly, which includes a higher proportion of women. Since the early years of the Social Security system, the primary purpose has been to provide a safety net for those retiring (particularly the economically disadvantaged), and it has been very successful in doing this.

The current problem with the Social Security system is that the much larger population of the "baby boomers" will be retiring beginning around the year 2010. Even though the Social Security Trust Fund has been increasing in size (and is projected to increase for 22 more years), the large number of retirements from the "baby boomers" is projected to deplete the Trust Fund by the year 2034 if no changes are made in the current Social Security system. At that time, benefits would have to be reduced by 29%. This reduction in benefits would be particularly painful for those with the least economic means, which disproportionately includes more women. This projection of a reduction in benefits is the reason for the current proposals for reforming Social Security.

I specifically want to comment on two aspects of Social Security reform that are prominent in many proposals. These aspects are (1) Investing a portion of the Social Security Trust fund in the stock market, and (2) Creating individual accounts. I want to first state that the advantages and disadvantages that I point out on investing in the equity market and individual accounts, are clearly dependent upon the structure of the specific proposals. Some proposals will magnify these advantages and disadvantages and some will lessen them.

Investing in Equities

First of all, nearly every proposal of reform for Social Security involves some form of investing a portion of the Social Security Trust fund in the stock market. The idea is to provide a higher expected return for a given level of risk; this is a diversification advantage. A very important point is that investing in the stock market is a separable issue from individual accounts; the benefits of investing in the stock market can accrue regardless of whether the Social Security Administration or individuals control the investment choices. The higher expected return means that part of the projected shortfall in future Social Security benefits could be eliminated. This is a significant advantage for the Social Security system. However, when you look at the total U.S. economy, not just Social Security, investing a portion of the Trust fund in the stock market is not a totally painless solution. There is a secondary effect outside of the Social Security system; all else equal, interest rates would rise in the process and increase the budget deficit, which also increases the total U.S. debt. The bottom line is that investing a portion of the Social Security system funds in the stock market does improve the projected funding of future Social Security benefits, but to some extent it also shifts the burden of Social Security reform to the general taxpayer.

Individual Accounts

A second aspect often included in Social Security reform is the creation of individual accounts. Individual accounts means that a portion of the Social Security funds will be identified as belonging to specific individuals. Each individual would then have control in terms of allocating funds in that account to different investment choices. This is a move towards a defined contribution plan.

A primary issue related to individual accounts is that a typical person is not impressed by the average "moneys worth" return of about 1.8% per year in the current Social Security system (this is benefits received compared to contributions made). This low return usually provokes the idea that individuals can do better than that if they are given control through individual accounts. This low return occurs because of two issues. First, early in the life of the Social Security system, many individuals received more benefits than their contributions would have justified. This immediately created a situation in which the Social Security system was not pre-funded. We are still faced with this unfunded situation, and this is the primary reason why the current system has such a low apparent return. Creating individual accounts will not eliminate the cost of pre-funding the current system. Second, there is an income-redistribution element in the current benefit structure - lower income participants get a better deal than upper income participants. Individual accounts would tend to unravel this income redistribution, and this has social and political consequences.

The fundamental economic advantage of a defined contribution plan is that it can result in a more efficient allocation of resources for the economy and an allocation of wealth that more closely matches an individual's risk preference. In the long run, this could lead to a higher economic growth rate and a higher standard of living. However, maintaining income redistribution and/or a guaranteed benefit floor retains the spirit of the current Social Security system, but offsets some of the basic benefits of a more efficient allocation of resources.

Another issue is that in moving towards a defined contribution system, some of the risk (in terms of achieving desired benefits) is shifted from the government to individuals. Some individuals may happen to make poor investment choices compared to the average, or they may happen to retire when the value of their account is temporarily low. This unfortunate sector would then receive lower benefits than an average return would have provided. Thus, individual accounts lose the insurance aspect of spreading risk across individuals over time.

A final issue is that a defined contribution plan with individual control has a higher administration and transaction cost. Administration costs would be higher because of record keeping requirements and management fees. Transaction costs would be higher because of a loss of economy of scale. And these costs would be higher the larger the number of investment options that are made available.

Budget Surpluses

There is one additional issue that I would like to comment on. This relates to the so-called budget surplus. There has been much discussion of using the reported current budget surplus to support Social Security, and other important political issues. I want to speak against additional spending justified by these surpluses. Let me make this simple statement, "From the common sense point of view of the average person in the U.S., there is no budget surplus in the current Federal Budget". Let me give you a simple illustration to explain what I mean. Suppose I look at my own personal budget and realize that I plan to spend \$20,000 more than my income over the next year. This could occur by simply running up my credit card balances. Suppose also that my parents loan me \$127,000 of their retirement funds, but they clearly expect me to pay them back when they retire. I can take \$20,000 of this money and pay off my additional credit card debt and still have \$107,000 of surplus cash on hand. I could of course spend this remaining money, but I would have to pay that back to my parents at some time in the future - so that really isn't a true surplus. It represents the proceeds from an additional loan. I could take this extra \$107,000 and pay off some of my private debt, say for example pay off the mortgage on my home. I could then claim that the level of my private debt went down, but I would still owe the same total amount. I just owe some money to my parents rather than just to other people in the private sector. The amount that my total debt would go up this year is still the \$20,000 that I overspend. But it is quite different if I spend any of the extra cash from the loan from my parents -- the amount of my debt would go up even higher by the amount of any extra spending.

This example shows exactly what is occurring in the current Federal Budget. The 1999 Federal Budget indicates a budget deficit of \$20 Billion of spending over receipts. This is called the "On-budget deficit". However, Social Security is providing a loan of \$127 Billion (this is the increase in the size of the Trust Fund), but this has to be paid back to future retirees. Counting this additional \$127 Billion from Social Security gives an apparent surplus of \$107 Billion. This is called the "Unified budget surplus". If this apparent surplus is not spent, then the amount of privately held debt would be decreased by \$107 Billion, but the combined level of U.S. debt will still increase by the original on-budget deficit of \$20 Billion. Every dollar we spend of the so-called budget surplus will increase the combined level of U.S. debt even further. On this basis there is a budget deficit in 1999, not a budget surplus. So any discussion of using the so-called budget surplus this year, even for good causes, can be misleading to the average individual in the American public.

I should note that there are "real" on-budget surpluses projected to occur in about three years. It would be prudent, however, to recognize that these are projections, and there is no certainty they will occur.

I want to close my remarks by saying again that I appreciate the opportunity to comment on such an important issue as reforming the current Social Security system. This is particularly important in terms of protecting the retirement incomes of the economically disadvantaged, which includes a greater proportion of elderly women who depend primarily on the promised Social Security benefits. Thank you.

Senator BREAU. Thank you, Dr. Holland.
Next we'll hear from Dr. Theresa Devine.

STATEMENT OF THERESA DEVINE, PH.D., PRINCIPLE ANALYST, CONGRESSIONAL BUDGET OFFICE, WASHINGTON, DC

Ms. DEVINE. Mr. Chairman, Senator Lincoln.

I am honored to be here today to discuss the implications for women of introducing personal retirement accounts and other changes to the Social Security program.

At this point, it is clear that the Social Security program faces long-term financial pressures. The current pay-as-you-go system—which relies on payroll taxes from current workers to pay benefits to current beneficiaries—cannot be sustained as the baby boomers age into retirement and the number of workers per beneficiary declines. Some change will be required. The question to answer now is: what changes should be made.

The committee has asked the Congressional Budget Office to address the impact of Social Security reform on women. As you know, neither the current program nor proposed reforms include sex-specific rules. Nonetheless, Social Security reform could affect women more than men, on average, because women are expected to earn less and live longer than men on average. How Social Security reform will affect any particular woman, however, is going to depend on several factors: the rules for personal retirement accounts, the rules for defined benefits for both workers and their families, the woman's own earnings marital history and the earnings history of her husband if she has married. Outcomes could vary significantly among reforms and among women.

At present, Social Security is a central part of the social safety net for older women. The progressive schedule for retired worker benefits, the auxiliary benefits available for spouses and survivors, and the inflation-protected lifetime annuity pay-out benefits all favor women more than men because of women's longer lives and lower earnings. Older women also have lower incomes than men from pensions and other sources. On balance, older women rely more heavily on Social Security than older men today.

As we consider the future of Social Security, we must, of course, consider how women's position in the economy has changed. Since today's Social Security's beneficiaries were young, the movement of women into the paid labor force has been dramatic. Women born since 1950, in particular, have been working for pay in much greater numbers than women born before then.

At this stage, however, it is also very important to recognize that a large minority of women still have little or no attachment to the labor market, and increases in women's participation have started so slow. Overall, it appears that the long-term upward trend in women's labor force participation could be ending with women's attachment to the labor force sharply lagging that of men. Likewise, women's earnings have also grown sharply over time. But, on average, women still earn substantially less than men.

For married women, in particular, the division of earnings between husbands and wives is most important for determining Social Security benefits, at least under current rules. Here, the gender difference remains sharp. In 1997, wives between the ages of

18 and 64 earned 31 percent of a couple's earnings, on average. That is, a wife's earnings equaled 45 percent of her husband's earnings, on average, within a couple.

Turning to the potential effects of reform and specifically to the potential impact of personal retirement accounts on older women's income, it is clear that any person's income from a personal retirement account will depend partly on the program's rules for contributions investments, and distribution. But some program features will be particularly important for some groups of women. Voluntary "catch-up" contributions to personal retirement accounts would clearly favor women who reduce their labor market hour earnings for dependent care, for example. Women would also benefit more than men, on average, from investment fees that were proportional to the size of account contributions or earnings, rather than a flat fees per transaction or per year when an account was open. Women would also be affected more than men, on average, by decisions about account payouts primarily because of women's greater longevity.

Account balances might be distributed as mandatory single-life annuities, for example, so that a worker would receive a steady monthly payment until death. Alternatively, all workers who were married might be required to purchase joint-survivor annuities, which would pay lower monthly payments than a single-life annuity while both spouses were alive, but the payments would continue after the worker's death.

A third possibility would be optional annuities, which would undoubtedly push prices up for annuity buyers. Those who expected to live longer would be more likely to buy optional annuities so pay-out periods would be longer and payments would be smaller on average. Administrative costs could also be higher. Of course, any annuity payout plan, whether mandatory or optional, could also charge women higher prices than men for single-life annuities because of women's greater longevity.

Finally, if faced with the same investment opportunities, different women could respond quite differently, depending on their feelings about risks and their circumstances outside of the program. The same holds for men. Husbands' and wives' account decisions could also be linked. Because investment returns would be uncertain, CBO cannot conclude whether the introduction of personal retirement accounts would increase or decrease any individual's total income from Social Security.

Proposed changes in the level and distribution of defined benefits could also affect the well-being of many women, with or without the introduction of personal retirement accounts. Some proposed changes would almost surely reduce women's retired-worker benefits more than men on average. For example, some plans could pay their retired worker benefit on the average of a worker's 38 or 40 years of highest earnings rather than on the current 35 years of highest earnings.

Other proposals would lower women's retired-worker benefit by less than men's, however. For example, some proposals would scale back the current retired-worker benefit schedule progressively, so that workers with high lifetime earnings face larger benefit reductions than workers with low lifetime earnings.

One proposed change in auxiliary benefits that could improve the well-being of many older women is a new minimum benefit for surviving spouses equaling 75 percent of the total benefit that the deceased spouse and survivor would have received. Under that proposal, a surviving spouse could receive the 75 percent benefit, the deceased worker's retired-worker benefit, which is the current benefit, or their own retired-worker benefit, whichever was highest.

Additional proposals to change auxiliary benefits would generally reduce benefits, however. Moreover, because auxiliary benefit amounts are based on retired-worker benefits, any reduction in retired-worker benefits would mean lower benefits for spouses and survivors. For survivors, in particular such cuts could be large. On balances, most proposed changes in defined benefits would favor women with a greater lifetime attachment to the labor force compared with women with a weaker attachment.

In sum, no easy answers are forthcoming to the question: What Social Security reforms are best for women? Women's economic roles vary greatly. Many women have a strong attachment to the labor market and high lifetime earnings, but many others have low lifetime earnings. If Social Security benefits decline or become less certain in the future, women and men might adjust their work and savings behavior to partly offset any direct effect of reform on their old-age income. But just like today Social Security would still be just one of many factors that influence people's decisions.

From the start, Social Security has had two conflicting objectives: first, to provide retirement income linked to workers' payroll taxes, like an individual pension plan; and second, to provide an adequate level of income for retired-worker benefits and workers' dependent families, like a social safety net. One of those goals comes at the cost of serving the other less successfully.

Reforms now being considered could shift the balance between Social Security to the competing roles as pension and safety net. Incorporating personal retirement accounts, in particular, could make Social Security more like an individual pension plan. Such a shift could significantly affect the well-being of many women. The consequences of that shift or any other reform, however, for any particular woman would depend on her own lifetime earnings, her marital history, her husband's earnings, and on the full set of Social Security rules.

I would be happy to answer any additional questions that you have.

Senator BREAUX. Thank you very much, Ms. Devine. I thank all three panelists.

Obviously, it sounds very complicated and, indeed, it really is, to understand it, but we thank them for their thoughts.

Let me just see if I can ask a question which will help maybe our audience also understand one of these problems that we're talking about with regard to women and how many times they are treated, it would seem, inequitably, not fairly, under Social Security.

You alluded to hypothetical families, and then ask you to explain why the current law—and Dr. Ross, I guess, is the best one, or anyone could join in, why is it like it is today.

Here's the example: We have Family A and Family B. In Family A, only the husband has worked, the wife has—outside the home. The wife has worked very hard raising the children and taking care of a home and making sure that everything worked properly, but she never earned a salary. The situation of this hypothetical is that the husband made \$34,200 a year. In Family B, on the other hand, both the husband and the wife worked outside the home and earned a salary, paid Social Security. The husband earned \$17,100 and the wife earned \$17,100. So the total amount that both families were earning was exactly the same, but in Family A only the husband earned the money, and in Family B the wife and the husband both earned exactly half for the same total.

Under those two scenarios under current law, the annual Social Security tax of both of the families would be exactly the same because the earnings for the family were the same. In this case, they would have paid \$2,120 a year in Social Security taxes, both Family A and Family B paid exactly the same. But the difference is when they retire. In Family A, when the husband retires, they will be getting a retirement benefit of \$1,623 a month for both of them. In Family B, when the husband retires, both having made the same amount of money for the family, their retirement benefit in Family B is only \$1,348 a month, which is about \$275 a month less.

There's even a bigger difference when the husband dies in these two families. If the husband died in Family A, your spouse would be receiving \$1,082 a month in survivor benefits. But across the street, Family B, where both the husband and the wife worked, if the husband died, they wouldn't be getting \$1,082 a month, she would only be getting \$674 a month. Both families earned the same amount of money, the only difference was that, in one family, the husband earned and the wife did not, and the other family across the street, they both worked and earned exactly half.

So that's the current situation. Maybe, Dr. Ross, you can explain, for the benefit of our audience, why is it like that.

Ms. ROSS. Well, I'll do my best.

Senator BREAUX. You can say, Congress did it, which is a simple answer, but what's the policy behind that. Why is it like that?

Ms. ROSS. What you're demonstrating is the tension between two of the principles on which Social Security is based, and one of them is social adequacy. One of the things that people have been concerned about from the beginning, and I call this program our family protection program, is what families would have to live on in retirement. So from almost the beginning of the program when there was one principle earner and another person who could get a benefit as a spouse that was higher than his or her own, we gave the worker's benefit and the dependent benefit because we were concerned about the adequacy of that family's retirement or disability income. On the other hand, the system also tries to be equitable. It tries to make sure that for every extra dollar that you contribute to the system, that there's another dollar—or there's another credit in your account for retirement or disability.

The tension between these two different goals is an uneasy one, and there's certainly a reason to continue to think about the importance of dependent's benefit. I talked about that earlier; that even

halfway through the next century, we expect forty percent of women to be drawing dependent benefits. So no time soon can we just sort of say, oh, well, we don't need to worry about that any more. On the other hand, there are more working women, and their concept of fairness is changing now so that they want to be—they want to think that they're getting more for their earnings—more benefits when they earn more, and surely wanted to get more than someone who never worked and contributed to the Social Security program.

So here we have these competing principles. Nobody has a proposal to address this issue that's anything but extraordinarily expensive to put on the table. A couple of things you could say to the working woman, and this is important information, if you work and pay Social Security, you not only get retirement benefits, but you also will earn survivor benefits for your family and disability benefits.

Let's be honest: by working, many don't just get Social Security, many probably get pension coverage and an ability to increase savings. But we really haven't resolved—and it's an important question for people to talk about—this tension between these two different principles, and also the principle that Ms. Glass talked about earlier on, the ability to move in and out of the work force. If you're going to continue to do that and allow women to be caregivers to their children and to parents and other relatives, then you want to be sure that you have taken care of them as dependents as well as workers.

So I don't have a magic proposal to put forward, but people are going to have to continue to struggle with this.

Senator BREAUX. Thank you. Does anybody else have a comment on this?

Ms. DEVINE. I just want to point something out about Jane's comment that 40 percent, of women are expected to collect benefits on their spouses' records. I think it's really important to distinguish between the time that a person's spouse is alive and the time after the spouse died. That is the distinction between the periods that a woman might collect spousal benefits and survivor benefits based on her spouse's record.

If you look at prime-age women who are between the ages of 25 and 44 and who are married, which still includes most women, and you compare their earnings to their husbands, only about one out of five earn as much or more than their husbands. What that means is that about one out of five are like your Family B, where the spouse have equal earnings or the wife makes more. Those women, if they outlive their husbands, will not collect on a survivor's benefit under current rules. Four out of five would collect benefits on their spouses' records as widows. I think that's a distinction that's very important to make.

Senator BREAUX. Let me ask one other question, and that is this: Suppose these people in this audience I know are very concerned about this, and I think that the real concern, and I find this from having senior groups, is not so much the situation with regard to their own retirement, but they're now really, I think, more and more concerned about their children and their grandchildren, and what's going to be there for them. What happens to this program

if we do not do anything? If Congress just says, look, this is too tough of a program for us to touch, we're not going to make any changes, we're just going to let it go just like it's going, we're not going to take a President's proposal, we're not going to accept Senator Breaux and others' proposal, we're just not going to do anything because no matter what you do when you touch it, you get killed politically, so we're just going to say, let it go just like it is. Tell us and tell the audience what happens to the program if Congress should decide to do absolutely nothing to make any changes.

Ms. ROSS. Well, right now, the Social Security system is running a surplus so that we're actually taking in more in income than we're paying out in benefit payments, and that will go on for several years. But what will happen in the year 2034 is that we will actually no longer have any more surplus or any more extra revenues to help pay the benefits. So in that year, 2034, we will have enough money coming in to pay for about seventy-one percent of today's current benefit levels. So if we do nothing, in thirty-five years, benefits would need to be cut by twenty-nine percent. I mean, that's the bold truth of it.

Senator BREAUX. She's not recommending that we don't do anything, she's just pointing out if we do not do anything, that's what happens. Any other follow up? Larry, do you agree with that?

Mr. HOLLAND. Yes. I just wanted to second what you said. Some people think there will be no money available at all for Social Security. This is not right. We're just talking about a reduction of benefits. That's still very painful for the people who are on the bottom of the economic ladder. So that's not a good thing, and we do need to do something to fix it. But there will be some money there in a pay as you go system, just not enough to pay 100 percent of all the benefits that are promised.

Senator BREAUX. As Ms. Collins pointed out, she's not eligible to begin her retirement until after we reach this day when we have no more money left in the Trust Fund. Dr. Devine, would you like to elaborate on this at all?

Ms. DEVINE. I did pick up timing of Ms. Collins retirement—and the Trustees' estimates, which is what we're all using here. When I heard the witness say that, her benefits wouldn't be there when she retired, I wanted to point out that the Trustees predict that roughly 75 percent of full benefits would be available when she retires in the mid-2030's if the law was unchanged. I also wanted to point out, that if something were to happen to her or her divorced husband, her eleven-year old child could also collect survivor benefits now. She and the child could also collect benefits if she become disabled.

Senator BREAUX. I think that you just made the point that it's not an option for Congress to do nothing. So anytime you hear people say, don't worry, I'm going to make sure we don't touch Social Security, but we have to touch it because we have to make it better because, if we don't, it's not going to be there. That's the real challenge. We have to do something. We got to make sure we do the right thing.

Senator LINCOLN.

Senator LINCOLN. I would just like to comment, too. Here we've talked about whether or not to take any action, what that would

ean. It's probably less popular in Washington now to talk about king action because we've talked about this budget surplus. And tend to agree with Dr. Holland, that it's not really a budget surplus, it's an annual operating budget surplus that should be going back into the Social Security Trust Fund by buying down the debt that we hold in this nation, and I do agree with you on that.

But heaven forbid that we don't have that budget surplus from a sound economy. That's another factor that we sometimes fail to put into the mix, and that is what should happen if the economy is not as strong in 2 years, or 4 years, or 10 years from now as it is today, which is allowing us this surplus and some comfort level in terms of what years the Social Security Trust Fund will last through.

So I think the economy is another factor that we all have to consider due to the fact that we cannot predict what it is going to do over the course of the next 10 years. We have no assurances of that. We have to take action in Congress in order to preserve the program that these people have indicated is viable to so many individuals.

I would just like to ask a question, probably to Dr. Ross and Dr. Devine. How much in what you all do and the people that you talk to—and Dr. Holland may have a good perspective on it too. How much do you think working women really know about the Social Security system and how it affects them? I mean, education is a big part of why we have these field hearings. But by and large, how much do you think, your average individual really knows about the Social Security system?

Ms. ROSS. Not nearly enough. I think all of us find that we haven't informed ourselves nearly enough about how to prepare for our retirement and our disability and what would happen to anybody in our family if we were to die. I think the last year and a half or so while President Clinton and people like the AARP and the Concord Coalition and other groups have been out talking more about Social Security as an issue, that there's been a lot of learning going on. But I also think most of us need to spend a lot more time on what the benefits would be for us, not just in theory, and, therefore, what else do we need to do ourselves. That's probably a good place to plug the fact that you could actually ask Social Security what you're going to get and we'll send you a personal earnings statement, which would be based on your earnings to date and our assumptions about what your earnings will be in the future.

Ms. DEVINE. I would agree entirely that people really just don't know about Social Security. The thing that really strikes me is that so many of my academic colleagues with Ph.Ds. in economics don't even realize that their employer contributes the same amount as they do. Some get a little bit disturbed when they heard this, but that's the level of ignorance. It's not just women. It's women and men. I think that as people age, they take a greater interest, but—

Senator LINCOLN. It's almost too late then.

Ms. DEVINE. That's right. You don't need small children to be busy and stay ignorant of your finances. Your education level might not make much difference either.

Senator LINCOLN. Dr. Holland, did you have a comment on that?

Mr. HOLLAND. Being in the education business, I believe that education is something we really need more of. I second what Theresa just said. Many of my colleagues don't know some of the fundamental facts about Social Security, and I think that's one of the reasons I really do appreciate hearings such as this, because it does offer an opportunity for people to ask questions and find out what's really going on. And I think that's something we really must work on in the future because there are a lot of issues that people don't realize about Social Security.

Senator LINCOLN. Is there anything in particular, Dr. Devine, that women should be looking for or thinking about or they need to know in order to recognize how advantageous the private accounts would be to them or—

Ms. DEVINE. Well, I think that there are a few things about personal retirement accounts that women and men have to consider. The first thing is that returns from private retirement accounts are going to be uncertain. Now, under the current program, there's uncertainty about benefits. None of us who have yet to collect benefits know precisely what our benefits will be because there's uncertainty about our future earnings. There's also uncertainty, some would say, because of the political considerations.

What the personal retirement accounts do, though, is add uncertainty how much uncertainty is going to depend partly on the design of the program and its level of flexibility. If it's a tightly structured program, that could limit the uncertainty. Returns will also depend on individual choice. The accounts are going to shift responsibility for investment decisions to individuals.

The other thing in terms of responsibility, is that, as you move away from the current system and individualize the program, you're going to be reducing redistribution that exists in the current program. You could, I should say, depending on the program's design. There could be less redistribution between families like your A and B, families with one earner and those with two earners. There could also be less redistribution within families from husbands to wives. There could be greater responsibility on the part of families to take care of themselves, as opposed to depending on the system, which could provide a greater contingency fund.

Senator BREAUX. Let me ask another question because I think, Dr. Devine, you've raised it. And it's interest to note what the government does with the Social Security Trust Fund. It's very important for all of us, I think, to understand that. I'm not going to ask the panel to comment on it. But, basically, because we have a surplus, the government invests that surplus that's in the Trust Fund, basically, and we invested it in things that are very secure, government securities, government bonds, Treasury bonds, Treasury bills. And the rate of return over the last many years has been 2.2 as Dr. Holland, I think, used a figure. Now, I think it's a little higher, it's about 3 percent now on that investment. That's what we earned on the surplus in the Trust Fund.

Now, you all know, if we had a private savings and you were investing it in something today that only returned a little bit more than 3 percent on that investment, people would look at you and say, you're not managing your money very well because you can put it somewhere that you'll get a much better return.

As an example, these ladies behind us, I'm sure, are all members of the Federal Thrift Savings Plan for Federal Employees, and Senator Lincoln and I are also, I guess Dr. Ross is as well. As a Federal employee, we have a different option. We can put up to 10 percent of our salary in what we call the Thrift Savings Plan each month on our retirement. There's ten million Federal employees, it's not just Senator Lincoln and I. It's ten million Federal workers have their Federal retirement plan. You can pick whether you want to put it in a low-risk account or a medium-risk account or a high-risk account.

We were just looking at the returns over the last 10 years. If you had put the money in the low-risk account, you would have been averaging about a 7.6 percent return on our retirement. If you put medium-risk account, you average about 8.5 percent on your investment for your retirement. And for those who put it in the high-risk account, which was, basically, the stock market S&P 500 Index, you were returned seventeen and a half percent. That's in comparison with what we do now with Social Security where we put it only in government bonds, and it's been averaging, really, less than 3 percent return. Some have suggested, and this is a question for you to comment on, that what we ought to do is give people the right to invest a portion of their Social Security taxes that they pay in an individual retirement account which you would own, which you could—your children could inherit if you pass away, and you would have the option of doing like we have in the Federal system, putting it in a low-risk, medium-risk, or high-risk account.

Now, on its face, it sounds pretty attractive. There are some concerns that have been expressed about doing that, but Congress is considering changing Social Security to give each person who is paying the tax the option of setting up a portion, maybe 2 percent of the 12.4 percent, in your own individual retirement account. What we would like to ask these panelists is to give us some thoughts about that concept. Jane.

Ms. ROSS. I have a couple of thoughts. I hope you find them helpful.

First, is that, obviously, the Federal work population, Federal work force, is a very special work force. It tends to be more high earners and not nearly as many low earners.

Second, as I tried to establish at the beginning, older women are a very vulnerable population, and I would say they will tend to remain so. I'm a little bit concerned about the extent to which we introduce additional economic risk into their Social Security program. Therefore, I would be more interested in seeing an individual account as an add-on to Social Security rather than taking something out of the payroll checks.

And a final thought—whichever kind of individual account we're talking about, whether it's part of Social Security or added on top—we want to be very careful about the dependent's benefits. I don't want these to be just individual accounts in which the worker gets to decide by himself all that might happen with that fund. We still have to be concerned about the people who will live after him who are part of his family. So I think that is part of the design issue.

Senator BREAUX. Thank you. Dr. Holland.

Mr. HOLLAND. I want to, first of all, say that the current Social Security Administration has been doing a very good job in managing the Trust Fund. They have not mismanaged the funds in any way at all. They are doing a very good job. The current return on investments in the Trust Fund is about 7.2 percent, which is all invested in a variety of intermediate term government bonds. The reason why it feels like we're getting less return than that is because of the unfunded problems. This happened because some of the early participants received more benefits than their contributions would have justified. For example, those who retired in 1941 received something like a thirty-five percent return on their contributions. And those that retired in 1965 received about a twelve percent return. The people who are entering the work force now, however, are only going to receive about a 1.8 percent return, and those entering the work force in the near future are going to receive an even lower return than that. This is primarily because some of the early retirees received more benefits than their contributions really justified.

But setting up individual accounts would allow the possibility of having a higher return because of diversification if I were to advise any of you on how to invest your funds, I would say don't leave it all in government bonds. You should diversify. Put some in the stock market, put some in bonds, and that gives you an advantage. So it is not because the funds were mismanaged at all. They're being managed doing very well right now by, the Social Security Administration. But we need to do something to provide additional funds to make up the shortfall.

Senator BREAUX. Dr. Devine, your comments.

Ms. DEVINE. A Nobel Prize was awarded just a few years ago for that idea of diversifying, I'll just comment, a Nobel Prize in Economics.

There are two aspects of personal retirement accounts that have to be considered. One is that they are typically linked hand in hand with prefunding. This was discussed earlier. We have to understand that when this system started, benefits were paid to people who hadn't paid much into the system. It was not set up as a savings plan in the traditional sense, where I put my money in the bank and I assume it's going to be there, or I put it into an investment account in my name. The program started out as a pay-as-you-go system. If we want to get out of this, someone has to pay. It doesn't have to be one cohort. It could be spread over a long period of time. I think that we have to consider the effects of that costs on rates of return from any type of an individual account plan.

The second thing that we also want to consider is risk adjustment. If something is guaranteed or nearly guaranteed, as Social Security benefits are now, that guarantee has value. I think that we might want to consider that value as part of rate of return.

Senator BREAUX. Let's go ahead and ask a few other questions. I just talked with Senator Lincoln about getting some of the audience's questions that we would like to get out here.

Here's one for anyone on the panel. What's the direct or indirect impact of divorce in regards to Social Security benefit payments?

Does anybody want to answer that?

Ms. ROSS. Sure. If you have been married for 10 years or more, you can receive a benefit based on your former spouse's earning records.

Senator BREAUX. It used to be twenty years and Congress reduced it to ten.

Ms. ROSS. Right. So after a 10-year marriage, you're eligible for spouse's benefits when that person retires, and a widow's benefit when he passes away.

One of the issues that people are concerned about now is that the spouse's benefit is half of a worker's benefit. If you're a divorced spouse living on your own, that might be a low benefit amount. Some people have raised concerns about the adequacy of benefits for divorced spouses.

Senator BREAUX. Dr. Devine.

Ms. DEVINE. I will just add that if we shift to a system of personal retirement accounts, divorce is something to consider. Right now, if you were to be married two or three times, a man or a woman, all of your spouses would be eligible for the same benefits. If we shift to personal retirement accounts, then each individual has one account. So if a person has more than one spouse, someone has got to get less because it's fixed pie. That's just something that we have to consider as we design this program.

Senator BREAUX. Dr. Holland, would taking Social Security out of the Federal budget and treating it as a separate entity correct the problem?

Mr. HOLLAND. The problem I address is a little different than that. The Social Security Administration right now is loaning the money in the Trust Fund to the Federal Government. So I don't think that treating Social Security as a separate entity would really change anything.

Senator BREAUX. One of the ways that I'm trying to explain—and it's difficult for even people who work on this every day to really understand. I'm trying to—am I correct in my thought process here. I've tried to explain how the government uses the Social Security surplus. A lot of people say, you're using my surplus and it's not going to be there, you're spending my Social Security Trust Fund. I've tried to compare it to a person who goes down to their local bank and opens up maybe a \$500 savings account and that account is opened up in your name, it's your savings account, but that \$500 that you put in the bank doesn't stay in a little box with your name on it. The bank takes your \$500 and they invest it, they loan it to somebody else, the bank tries to make a return on your money that you've given them in your name for your savings. But the day you walk into that bank and say, I want my money back, I'm taking it out of my savings account, that bank has an obligation to pay you your money that you put in, plus the interest that it's made.

It's the same type of things with the Federal Government. When people pay their Social Security tax, that is recorded in your name, it is currently in a surplus supply, but the government uses it for other purposes. But that is an obligation on the part of the United States government that, when you're ready to retire, that that money will be available to you.

Since 1935, every month, every day, every year, everybody has gotten what they were entitled to. So I try to explain it like that.

Senator LINCOLN.

I just think it also goes back to a little bit of what Dr. Holland talked about, and that's the different between public and private debt. It's definitely the shifting of responsibility in terms of that debt, really, from one area of government to another. It's not a private debt that's owed to the private industry world. It is a debt that is owed to the other parts of the government. And there is a distinction there, which we have to make sure we're recognizing. And Senator Breaux points out that we wouldn't want the government to just be sitting on those talents, we don't want them to bury our talents, we want them to reinvest them so that our community and our government and our word is a stronger place. That's what we're really talking about in that arena.

Here's another question from someone in the audience. What are the possibilities of eliminating the cap on contributions of the higher wage earner per year?

Ms. ROSS. Well, that is a question for that side of the table.

Senator BREAUX. Let me answer that. Not good.

Ms. ROSS. Having heard that it might not happen from the people who are going to vote for it or against it, let me just say one of the attractive features of this proposal is that you're going to tax, to a greater extent, people who have more earnings. It doesn't have much of an effect at all on people with low earnings who are often women. This is a proposal that tends to hit high earners, which makes it a lot more painful for some people.

I could add one more thing. Some women could end up benefiting from this proposal if they are the spouses and widows of these high earners—because they get higher benefits due to the change. This is a more progressive kind of proposal for achieving solvency than some of the others.

Senator LINCOLN. One other question was that, is there a chance that Social Security will be totally privatized?

Ms. DEVINE. Again,—

Senator BREAUX. That, again, is sort of a political question, and these are the experts from a technical standpoint. How we do it is really—and Blanche, obviously, faces the same exact decisions I have to make in making these decisions. It's really a political decision.

Some countries have totally privatized their retirement benefits, their Social Security. Chile is one of them, but it's a much smaller country. It's probably the size of Arkansas, the whole nation, or smaller. And they've privatized it and done fairly well with it. But I don't think that you're going to see any total privatization of Social Security. I think that—there's some people who advocate that, there are a few Members of Congress, let's just give the people the money and do what they want with. And then it gets away from being a national program. Then it's sort of every person for themselves. And every time that happens, there's an awful lot of people who fall through the cracks.

One of the questions is, what is my plan, because I've introduced some legislation with some Democrats and Republicans together, and one of the things that we do is to sort of partially privatize it

only in the sense that we give 2 percent of what you pay back to you to put in an individual retirement account. And you would have an account much like the Federal plan that I'm in and all of us are in, where you could pick a high-risk, medium-risk, and a low-risk. You would get that, you would inherit it, you would own it, it would be yours. We would also make some changes for lower income workers to allow them to do better than they do now. We also have some fixes on the women, inequities that they are short-changed in many cases by looking at the number of years that they work, recognizing that they have to not work as much or as long as men, and try and bring them up in what they would get. So this is not privatization in total, which I would oppose, but it's to give them just a little bit of an investment incentive.

I'll tell what else it does. Your children, most of you are probably close to being in the program and, you know, I'm not that far off myself with two grandkids. But I guarantee you that my children and I bet you my grandchildren are going to want to be able to want to be invested in the system to feel like they own a part of it. There are too many people, I think, that are becoming disconnected with Social Security. They don't feel it's going to be there for them. But if they were investing every month in their own individual retirement account plus Social Security, they would be more concerned about their investments and how much money it's making, and I think it would strengthen the overall system if we did something like that.

Senator LINCOLN. Just to add to Senator Breaux's comments, the investment part for younger individuals, not only will that give them a little more ownership, but it will also encourage education. I think we've all talked on that, and that there is far too many of us that know far too little about the Social Security program and about financing of our elderly years. So, hopefully, we would see that encouraged.

I would just comment on the privatization. I do not believe you would see this government or this country completely privatize Social Security. I think we will be looking for ways that we can involve the private marketplace to help maximize what we are investing in the program, but I do believe that our country is truly a neighborly like country and we were built on the ideals and the aspect that we were going to be there for each other and we were going to work as a team. I think that's what Social Security provides us.

Senator BREAUX. Steve Forbes, one of the Presidential candidates, is for totally privatizing Social Security. Of course, if you're Forbes, it's probably a good idea. But most of us aren't in that category.

Let me just—one other question here. If individual accounts are implemented, would I be forced to invest my money in the stock market? And under our plan, the answer is, no, you could have your 2 percent going into the most secure account of all, which would be just like it is now, government bonds, or you could choose the second account, which would be a mixture between government bonds and the stock market, which would be a medium risk, or you could say, I want to put it into the high-risk account, which would be the stock market, or you could do a blend and put a little bit

here and a little bit in this one and a little bit in the third one, and you could pick and choose. So you wouldn't have to do that.

We're going to have to finish it up. We have to finish up, I think, by 4, but I saw someone had their hand up. I'll just go ahead and do something that's always risky to do, but I'll start doing, just know we don't have the time.

AUDIENCE MEMBER: My husband is an economist, and one of his concerns is a concern that I think even Alan Greenspan has voiced, is that, if you do any privatization, you wind up with the government investing in the stock market, and then you got political things going on with the stock market which could be a disaster. And I have not heard that concern addressed or issue at all. Would you tell me—

Senator BREAUX. That's a good question. What she's, basically, saying is, well, if the government started investing all of the Social Security money in the private market, the argument is that the government would be making decisions about who wins and who loses in society, and then Congress could bring the people up who are doing the investment about every year and tell them, we don't want you to invest any in General Motors, we think you should invest in Ford Motor Company, or somebody will be pressuring and saying, we don't want you to invest in the military defense companies because I'm against the military. I don't want you to put all of the money in the Boeing Company because I don't like airplanes, or they would dictate where the money goes.

Under my plan, the individual makes that decision. The individual would select—not something to do in the thrift savings plan. We picked one of three, and for instance, we have people that manage it for us, and the medium risk is—the highest risk is invested in the stock market, but it's invested in a stock index fund that tracks the S&P 500 stock index. They invest it, but it's—we don't—and we tell them which one to put it in. So it's the individual picking it, but somebody has to actually be hired to go out and do it. Then if you want to do it all in government bonds, it stays just like it is now.

The argument is, well, the government should be doing or it should be handled by some private investment firm telling them where you want to put it. It's a very good point. I get really concerned about saying—it depends on—one administration maybe all—want to put it all in defense. The next administration says, I don't want you to put any defense. You got the political problems in making decisions about where it goes. I think that would be very bad.

Senator LINCOLN. I would just make the comment that even in the President's proposal where it's, I think, fifteen percent that would be going into there, that's still less than 5 percent of the total stock market. So, you know, if we were to take all of Social Security and invest it that way, that might be a caution we should be very, very concerned about. But I would say that, in every plan that has been looked at, it's only a small portion that would be invested into the stock market, and, in that, less than 5 percent, that's still less than the largest pension plan in the country, which is based in California. They have more than 5 percent of the total market, I believe. Jane would probably—

Senator BREAUX. Let's let Dr. Ross. The Administration has a proposal on this and Dr. Ross could say what it is.

Ms. ROSS. Senator Lincoln has said almost everything I was going to say. I think there's an issue about—there is an issue about corporate government and an issue about the government's involvement in the private sector. Our contention is that you can have the same kind of an independent board investing on behalf of the government, but it will be independent, private individuals who were selected by a board just like the Thrift Savings Plan, and that they would invest in things like a stock index.

Now, you only have, in any plan, the assurance of the people who are in the Congress at the time it's going on, so people could always change it. But I think there is an idea here that could get around some of the issues.

Senator BREAUX. I think that can be resolved. We're not that far off, I think, on that point.

AUDIENCE MEMBER. On any plan, you're pushing, I guess, 2 percent of the Federal tax personal investment accounts. Wouldn't that involve some transition costs that would either raise the retirement age or lower for current benefits?

Senator LINCOLN. One of the—

Senator BREAUX. I was just asking—I was asking the brains in our operation, which is my staff in the back, there is a transition cost. One of the things we do to pay for that is use a portion of the Federal surplus to pay for the transition cost as we go into the 2 percent because it does cost something doing that because you're taking 2 percent out that people aren't going to be putting into the fund and we use some of the surplus to pay for that as we move into the transition, and the answer was yes. We maintain the early retirement at sixty-two years and we continue the increase, which is already in the law, of gradually going up to sixty-seven years of age.

Senator LINCOLN. I would just add to Senator BreauX, most people don't know the retirement age has already been increased by law. So by statute, it will be phased in.

Senator BREAUX. I want to thank, No. 1, all of you for being a terrific audience. Most of the time, we go to these hearings around the country and everybody comes with opening comments and half the audience gets up and leaves after that, then the next half gets up and leaves before we finish. So I can congratulate all of you for coming and listening and being involved.

This is only the beginning of the process about helping educate people about what Social Security is all about, the fact that we do have to make some changes, and because of Senator Lincoln, this is a special hearing based on concerns typically for women, and I want to thank her for inviting me to Little Rock and our staff. I want to thank our Chairman and thank Senator Lincoln as well as Senator Chuck Grassley, who is the chairman of this committee who is not here with us today, but he's from the state of Iowa, and he has done an absolute magnificent job in selecting the topics for our committee to look into.

We've looked into Medicare, mercy homes, home health care, Medicare fraud, advertising fraud for seniors and things that peo-

ple are trying to take advantage of seniors, and we are a very active committee in all of these issues dealing with aging.

You have some terrific people in Arkansas, Senator Lincoln, that are really in the forefront of the university and your geratology programs here. This is a very important area that we are looking at becoming more conscious of as a Congress. And I want to thank our out-of-town guests and our panelists, particularly Jane Ross and Theresa Devine, who have come out of town, and Dr. Holland for being with us, and thank all of you for being a terrific audience.

Senator Lincoln, do you want to conclude this?

Senator LINCOLN. I would like to conclude this and thank all of you all, because you are the most important part of this discussion. I promised you when I was elected that I wanted to bring Washington to Arkansas so that your views and ideas could be heard and that could you be a part of this discussion. In discussing the issues that affect us all, young and old, Social Security, Medicare, all of them, it's essential to have the input of the constituency, and I'm very proud that you've showed up today. You've entered into this conversation and really made this a team effort.

I also would like to thank all of our panelists who have joined us to testify today. Ms. Collins and Nevada, she's been great. We appreciate all of you all who traveled a great distance to enter into this. This is what Senator Breaux and I do on a daily basis in Washington. We go to hearings, we listen to concerned people, individuals who have expertise, and it helps us to understand what the facts are and how we can make the best decisions possible on behalf of the people that we represent.

I also want to add my thanks to Chairman Grassley. He has been absolutely wonderful in this committee to really bring up issues that are so pertinent and so important to the American people. And to all of our staff. This stuff does not happen without a lot of staff being involved. They've done a great job as well.

I also would like to remind you all that there are two Social Security field representatives in the back of the room, as well as my staff. If there are questions you may have or assistance we can provide you with the Social Security Administration, that's our job, that's what we're here for. We hope that you will call on us to do that.

Last but not least, I think would really like to thank my colleague, Senator Breaux. Would you all give him a big Arkansas welcome. Senator Breaux does an excellent job on behalf of Louisiana, but more importantly, he's a great friend to me and he does an excellent job on behalf of all of us Americans, and I really appreciate it.

With this, Senator Breaux and I and the staff will take back your words of wisdom as well as your concerns to our colleagues in Washington, and we'll continue to address these issues in the U.S. Senate and especially in the Senate Aging Committee.

[Whereupon, at 4 p.m., the committee was adjourned.]

