Welcome to our electronic town hall on Social Security. I have been looking forward to this conversation to enable us to have a broader discussion of this critical issue.

Keeping Social Security on stable financial footing should be a top priority for both parties, as no program has proven more fundamental for providing a basic safety net for all and taking care of the most vulnerable in society. This program is not just an enhancement for middle America, but is a critical lifeline for many seniors, the majority of whom would live below the poverty level without Social Security. It is also a critical social insurance policy for widows, orphans, and the disabled. This important additional insurance benefit is too often overlooked in discussions about the future of Social Security.

Everyday I am getting important and in some cases touching reminders of how critical this program is. Just a few days ago I received this e-mail from one of my constituents in Northeast Portland. Marc has given me permission to share this story with you that sets the stage for our discussion today.

Date Received: 3/3/2005 1:45:33 PM

Dear Congressman Blumenauer,

In 1972, when I was 11 years old, my father died suddenly of a heart attack. He left my mother with 4 children to raise. His life insurance paid out $70,000, which wouldn't last very long on it's own. We all worked; my younger brother and I had a paper route, my sister babysat, and when we turned old enough to drive, we all worked at my uncle's drug store. My eldest brother was just a freshman in college when it happened. My mother worried that he would have to cut short his education and ?nd a job too. She depended on Social Security checks to get us through these tough and stressful years. Every month a check for $120 per child would come in, and a check for about $280 for herself. Between this, her own part time job and college loans, she managed to send us all to college.

Social security worked for our family in a time of need and it paid off for our country in the long run. My siblings and I have all been rewarded for our parents' hard work, and we are productive adults in good jobs, contributing to the economy and tax base. Social security was designed as an insurance program and it has performed better than any other government program. To change it into an investment program and tie it to the stock market defeats the purpose of a program which was born from the stock market crash. How could we buy such an illogical plan?

My mother passed away in 1996. I know that she would be as offended and angry as I am at this attempt to dismantle the best social program in the history of this country. Social Security was created in a time, unlike the present, when our country had vision for the long term and knew that what was best for its people, was good for the whole of the country. It was a time when we realized that we are all in the same boat, rich or poor, old or young and what benefits one, benefits all. Our future depends on this.

Please vote against President Bush's extreme and illogical plan to change Social Security. We can do better.

Sincerely,

Marc

I am confident, as Marc says, we can do better. Oregonians have made many suggestions to me over the last two months and I expect that we will have an opportunity during our electronic town hall to explore a number of them.

As we begin, we do have the luxury of time in addressing the challenges facing Social Security. The last time changes were made, during the Reagan administration, they were dealing not with 20 years to make adjustments but were faced with a deadline that was literally just a few weeks away. I am confident that we can use the cushion that those reforms accomplished in 1983 to do this job right.

Let's get right to your questions and comments, which we invite you to submit over the course of the next hour. We will continue to be posting other comments and questions after the session is over and we welcome you to visit the Social Security section of our web site for further updates at http://www.blumenauer.house.gov/.

**Do they have the votes to pass the privatization plan?**
As of today the answer is no. Votes are not there, yet… Almost all Democrats and some Republicans are opposed to privatization and the trillions of dollars of new debt it would require. But because many Republicans, who do after all control the House and Senate, are supportive, this issue is still in doubt.

Any President has huge persuasive powers at his disposal. This power combined with pretty ruthless tactics forced through the prescription drug Medicare plan in the middle of the night during the last Congress.

Both sides will be extraordinarily active on Social Security privatization. I'm convinced the next two months will determine the success or failure of the President's initiative.

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**How many people are on Social Security and is it only for the elderly that have retired?**
Nearly 50 million people are on Social Security at the present time. Of that population, over 14 million are orphans, widows, and the disabled.

Social Security was designed to give the American people a safety net and to prevent them from falling into poverty.

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**Isn't Social Security a poorer retirement plan in terms of return on investment?**
Actually, the Social Security program is the key to retirement security for more than half of the elderly in America. Without these monthly payments more than half our seniors would slip below the poverty level.

Remember also that Social Security is not just for retirees. Nearly one-third, 31%, of the monthly checks go to widows, orphans, and disabled workers.

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**Is there a Democratic alternative to the President's plan?**
First of all, the President has not introduced a formal plan. He is talking about changes but there is no legislation for Congress to consider.

It would be bad form, as well as questionable politics, for the Democrats to advance an alternative before the President has presented his proposal.

Everyone I know in Congress is willing to work with the President to strengthen Social Security and prevent long-term funding problems.

**I have the impression that Democrats are playing defense on the "privatization" issue even though public sentiment, so far, rejects the idea.**
Absolutely. This is a golden opportunity to make the public aware of the social security program, and "fine tune it" to assure social security is healthy for generations to come.

One of the simplest adjustments would be to increase the cap on annual earnings to which the tax is applied, currently $90,000. 94% of the public pays this tax on all of their income, increasingly this percentage would extend the life of the trust fund for many more years.

Another very important protection is to stop budgeting the Social Security trust fund surplus in a way that makes it easy for Congress to spend on other purposes...

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**What would you if it were solely up to you?**
If it were solely up to me, I would first require that Congress no longer spent the Social Security surplus on another round of tax cuts or artificially high federal spending. I would not allow spending from the Social Security trust fund to disguise the true size of the deficit.

Second, I would require that Social Security always have a plan to be solvent over the following 20 years .
Third, I would increase the level of income against which the Social Security tax is levied. This year, it cuts off at $90,000. A modest increase in that income ceiling will provide a dramatic extension of the life of the Social Security trust fund.

I would also diversify the Social Security trust fund by investing each month a small portion of the surplus in a broad-based index fund. This will make the portfolio more diversified. If the stock market grows more rapidly, then it will provide a greater rate of return than the government bonds, which would extend the life of the trust fund even longer.

Even more attractive, from my perspective, is that this would make it harder for Congress and the administration to raid the Social Security trust fund to disguise the true size of the deficit.

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**How can we be sure benefits to those over age 55 would not be cut in the future, when the continuation of the benefit plan depends on borrowing large sums after this President leaves office?**
It is not assured that people over 55 would not suffer benefit cuts. First, the means by which they would actually reduce the long term Social Security deficit is to have a less generous annual inflationary adjustment. If this starts as they plan in 2009, everyone will see their benefits reduced over time, including people already retired. A person at age 50 could expect to see a 10% reduction in their social security benefit the first year they retire. Second, the spiraling deficit would put increased pressure on future Congresses to reduce benefits, or raise taxes, or both. The way that most would feel the immediate impact would probably be in Medicare. This medical insurance program for our seniors, is already in deficit. It is very likely that major reductions in service and increase in costs would occur in the next 10 years.

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**Why is there such commotion about the future crisis in Social Security, when it appears that Medicare will be in greater trouble sooner?**
You are right; there is already a crisis in Medicare. This key program of medical insurance for American seniors has its own trust fund which started running a deficit last year. The Social Security trust fund won't run out of money until the year 2052.

Over the next 75 years, Medicare is projected to be eight times the problem that Social Security will be over that same time.

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**Do you think that President Bush and his party are focusing attention on Social Security in**

**order to take attention off the federal deficit and the Iraq War?**
It is very likely that the President's advisors feel that there is less risk to them by talking about Social Security than the spiraling costs of the Iraq War, $300 billion with no end in sight.

You are right the deficit is making people in both parties increasingly nervous here in Congress. We watched the dollar fall when the South Korean Central Bank was rumored to stop buying US bonds. I think we are clearly sitting on a powder keg that could create huge problems in the years ahead.

Last but not least, Medicare spending is under more pressure than Social Security and will impact senior citizens immediately with any of the proposals that are on the table. They could have concluded that they are better off avoiding it for as long as possible. Certainly Social Security has dominated the air waves for the last 2 months and is at the top of the President's schedule and the members of his administration for the next 60 days.

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**What will the Bush privatization plan cost?**
Over $4 trillion within the first 20 years the plan is in place. The plan that the President is advocating diverts 4% of a participant's payroll tax to fund the private account. Over the next 20 years, this will divert substantial sums that will require between four and five trillion dollars of additional federal debt to make the system work and continue the Social Security payments to older Americans that the President wants to exempt from any changes.

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**Isn't the trust fund just some words on paper that will be worthless when the money is needed to actually pay Social Security benefits in the future?**
The pieces of paper those words are written on are U.S. Treasury bonds which are considered the safest investment in the world.

The United States has never defaulted on a bond or interest payment. Many treasury securities are held by private investors and foreign governments. It is unthinkable that the United States Congress would default on payments owed to the Social Security trust fund for our senior citizens while satisfying commitments to others.

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**An article which appeared in the op-ed page of the Oregonian during the past week implied that the Bush Administration's real agenda is to do away entirely with government financed Social Security. Do you agree, Congressman?**
It is clear that there are many people involved in this discussion who do not agree with the basic premise of Social Security providing the safety net for retirement security. Two weeks ago, Alan Greenspan, who chaired the 1983 Commission that "fixed" Social Security with tax increases and raising the retirement age, would not answer Congressman Barney Frank's (D-MA) question about whether he (Greenspan) would have voted for Social Security in 1935.

Whether this is the ideology of many in the administration, to eliminate Social Security, there is no doubt that they place less value on it and on other programs that Americans have relied on for years. There current budget is evidence of cutting back on this type of support.

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**Many people do not truly understand the relationship of the Social Security trust fund and the General Fund. Please explain this relationship, and how the government borrowing from this fund impacts the on-going debate.**
Social Security is at the heart of a contract each of us has with the government. When we pay into Social Security, we invest in our own retirement and are insured in case of a disability or loss of a working spouse.

The government is required, by law, to honor this commitment. This requirement does not mean the government puts Social Security payments off limits for any other purposes. Our payments are pooled with all others received by the government. This pool works just like a bank: revenues

collected for one purpose can be used to finance other purposes, so long as depositors can make withdrawals in the agreed upon manner -- in this case, when we retire.

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**Would you support what is being called Social Secuirty Plus, where there are incentives to save and invest outside of Social Secuirty?**
I think that having more incentives for ordinary Americans to save and invest do make sense. The typical family is saving, on average, $1.40 per week, and our national savings rate has never been lower. If it weren't for increase in home equity the rate would be negative in recent years.

Social Security private accounts do nothing to increase the savings rate, they just shift the money from one category of savings to another. New efforts to help especially the young save money for their retirement, I think are very worthwhile.

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**Are there case studies of other, preferably similar, countries that have privatized retirement plans? Did it work / fail?**
The experience of many countries who have privatized their version of Social Security in total, or in part, are very instructive. All that I have examined have run into problems with administrative costs and frustrated expectations. Many have been required to either "bail out" their privatized programs or cut benefits, or both.
I encourage people to look at what has happened in Chile, Argentina, Sweden and Great Britain in particular.

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**Do you think that reforming the Estate Tax to help pay for funding social security in the future would be possible?**
I think it is very unlikely that these proposals could be linked in the current climate. An elimination of the inheritance tax is a high priority of the people who currently control Congress and of the Bush administration. The money that would be lost by eliminating the tax on the tiny number of estates that actually pay this tax each year (about 3,000) could go along way towards making social security permanently solvent. It is, however, not in the cards.

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**Are any of the Oregon Congressional Delegation in support of the President's plan to privatize social security?**
To the best of my knowledge, no one has embraced the President's proposal. Some of us have reacted strongly in opposition to what they are proposing, others are still taking in information. The evidence in Oregon and around the country is that politicians of both parties are paying attention to the outpouring of concern for Social Security. It is important for citizens to be heard. You are making a difference.

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**Earl, I am frustrated that the Bush administration keeps rolling these plans out with little detail and a lot of rhetoric that frighten the public. How can the Democrats deal with this administration more effectively?**
I share your frustration. It is sad that the administration refuses to publish a 2-page explanation of what they are actually proposing. This may be good politics for them, to be able to change it on the run, but it extremely hard on citizens that take this seriously and makes it almost impossible for us to have a real policy discussion as we are debating an elusive moving target.

One of their tactical considerations is that as long as it is proposed indirectly they are able to keep it out of the budget process which would stop their proposal dead in its tracks.

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**If my spouse passes away suddenly, can my children and I receive money they've invested into Social Security?**
Yes, family members of deceased workers are eligible for Social Security benefits. A widow or widower taking care of children under the age of 16 is eligible. Unmarried children under the age of 18 also receive benefits if their working parent passes away.

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**With the NYSE worth about $17 trillion, if we move to put the $2.6 trillion in excess Social Security (SSI) into it, won't it cause stocks to artifically inflate themselves? Then in turn, wouldn't the market then self correct itself, causing stocks to fall, leaving some investors broke (like those just entering the market)?"**
If we were to suddenly purchase hundreds of billions, or trillions of dollars it would have a destabilizing effect. I would propose that we instead slowly invest small amounts over time so that we build a portion of our portfolio in equity not just in bonds. Done methodically over 20 years it will not destabilize the market and it will possibly lead to greater returns for the Social Security trust fund and make it harder for politicians to spend the surplus.

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**What is the current rate of return for Social Security surplus?**
The effective annual rate of interest on all obligations in the trust funds in calendar year 2002 was 6.4%. The interest rate on special issues purchased by the trust funds in December 2003 was 4.4%. Currently, 10-year U.S. Treasury bonds yield around 4.2%. As you can see, the financial markets influence the rate of return on the Trust Fund just as they do for any investment.

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**Was social security originally designed similar to an insurance system to cover retirement, disabled, widows, et al? Using an insurance model as an investment from the time I first began working in 1944 until my retirement in 2000, a portion of my ss payments invested would have generated about triple the retirement of my current monthly payments. As an example my 401K grew by nearly 100% in 12 years."**
In 1935 when it was created, Social Security originally was a retirement program. In 1939 protection was added for widows and orphans. And in 1956, disability payments were added. It is far more than a retirement program.

It is true, your 401(k) may have grown by 100% in 12 years, but that means you must have retired before the bubble burst in 2000. Many Oregonians who had to retire later in 2000 or 2001, had significant losses. Of course, if your 401(k) had Enron stock, you may have ended up with a 101 (k) or a No(k).

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**What is the “clawback” I’ve heard about in the President’s proposal?**
The President’s privatization plan diverts money from Social Security to put in the private accounts. The simple way of thinking about the “clawback” is that you have to repay Social Security for borrowing money to start the private account. Those who elect to set up private accounts will receive less Social Security benefits to pay back the money borrowed plus the equivalent of what would have been earned by the Social Security trust fund.

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**Are you in favor of opt-out 457 and 401k plans, rather than the opt-in plans we have now? Do you think offering an IRS refund option for deposit into a savings account would help increase savings?**
You raise a fascinating point of most people's investment behavior. For all the talk about the value of an "ownership society" and getting people to invest in their future, most people simply accept the default option for their retirement accounts and seldom go back and update based on market performance. Making sure that the defaults are more balanced for long term investment, rather than a savings program, would help most people.

I am very interested in exploring opportunities for direct deposit of tax refunds into people's 401(k) or 457 or IRA. The more that we make savings automatic and encourage the selection of the option that meets their long-term investment strategy, the better off most people will be.

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**I am concerned about changing social security to private investments because the stock market is so volatile and in the past 4 years I have lost half of my "other" savings for retirement due to the stock market "crash". Why is the President not concerned about this? Who will support people who lose their savings to the stock market volatility?**
There is a realization that if many people get burned by a falling stock market, or choices that are

so conservative that they don't come close to making up for the benefit reductions, there will be an outcry from American seniors, including many of our most vulnerable citizens. One of the reasons Social Security is so strongly supported is because it has dramatically reduced the number of seniors living in poverty. If administrative costs soar or the investment income does not materialize, there will be severe pressure on society to do something. I would like to think that Congress would respond to help these people, but practically if we create a huge expensive, long-term problem and spend the money now, we will have fewer choices to help people later.

This is something that people should press relentlessly for the supporters of privatization to provide a more clear picture and better answers.

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**How can young people save when they are spending the first 10-20 years beyond education paying back student loans for their education?**

I am deeply concerned about what we are doing to our young people today. We have made a college education much more expensive than when their parents were in school. Many young people today are graduating with significant educational debt and starting jobs with fewer benefits and no prospects for long term pension security like their grandparents enjoy today.

This is why it is terribly unfair to penalize today's young people with dramatically reduced social security benefits when they retire, and charging trillions of dollars in transition costs to their credit card. This is why I am having town halls not just in churches and senior centers, but on our college and high school campuses so that today's youth understand their stake in this issue.

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**Conclusion**

Thank you for taking the time to share this on-line conversation with me. We hope you found this informative and useful. We will continue to have conversations in Oregon to explore these issues, hear people's concerns about Social Security, and to make sure we don't avoid the real crisis for our budget and our senior citizens: Medicare.

As I mentioned in one of the earlier answers, unlike Social Security which will start in 20 years paying out more than it takes in (but still have an ample surplus available), Medicare started going into deficit last year. Over the next 75 years, the Medicare deficit is expected to be 8 times that of Social Security. Unless we address this $27 trillion problem soon, services for our seniors will deteriorate rapidly while the costs escalate.

We look forward to your continued input for ways that we can answer your questions and new information that would be helpful to you. Thank you very much for spending the afternoon with us. From a snowy Washington, D.C., I wish you a pleasant day.