THE 2016 ANNUAL REPORT OF THE SOCIAL SECURITY BOARD OF TRUSTEES

HEARING

BEFORE THE

SUBCOMMITTEE ON SOCIAL SECURITY

OF THE

COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED FOURTEENTH CONGRESS

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THE 2016 ANNUAL REPORT OF THE SOCIAL SECURITY BOARD OF TRUSTEES

WEDNESDAY, JUNE 22, 2016

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON SOCIAL SECURITY,
Washington, DC.

The Subcommittee met, pursuant to call, at 2:05 p.m., in Room B–318, Rayburn House Office Building, Hon. Sam Johnson [Chairman of the Subcommittee] presiding.

[The advisory announcing the hearing follows:]

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

SUBCOMMITTEE ON SOCIAL SECURITY

FOR IMMEDIATE RELEASE
Wednesday, June 15, 2016
No. SS–05

CONTACT: (202) 225–3625

Chairman Johnson Announces Hearing on the 2016 Annual Report of the Social Security Board of Trustees

House Ways and Means Social Security Subcommittee Chairman Sam Johnson (R–TX) announced today that the Subcommittee will hold a hearing on the 2016 Annual Report of the Social Security Board of Trustees. The hearing will focus on the findings in this year's report and the cost for workers and beneficiaries of delaying actions to address Social Security's fiscal challenges. **The hearing will take place on Wednesday, June 22, 2016, in Room B–318 of the Rayburn House Office Building, beginning at 2:00 p.m.**

In view of the limited time to hear witnesses, oral testimony at this hearing will be from invited witnesses only. However, any individual or organization may submit a written statement for consideration by the Committee and for inclusion in the printed record of the hearing.

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Please Note: Any person(s) and/or organization(s) wishing to submit written comments for the hearing record must follow the appropriate link on the hearing page of the Committee website and complete the informational forms. From the Committee homepage, *http://waysandmeans.house.gov*, select "Hearings." Select the hearing for which you would like to make a submission, and click on the link entitled, "Click here to provide a submission for the record." Once you have followed the online instructions, submit all requested information. ATTACH your submission as a Word document, in compliance with the formatting requirements listed below, **by the close of business on Wednesday, July 6, 2016**. For questions, or if you encounter technical problems, please call (202) 225–3625.

FORMATTING REQUIREMENTS:

The Committee relies on electronic submissions for printing the official hearing record. As always, submissions will be included in the record according to the discretion of the Committee. The Committee will not alter the content of your submission, but we reserve the right to format it according to our guidelines. Any submission provided to the Committee by a witness, any materials submitted for the printed record, and any written comments in response to a request for written comments must conform to the guidelines listed below. Any submission not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All submissions and supplementary materials must be submitted in a single document via email, provided in Word format and must not exceed a total of 10 pages. Witnesses and submitters are advised that the Committee relies on electronic submissions for printing the official hearing record.

2. All submissions must include a list of all clients, persons and/or organizations on whose behalf the witness appears. The name, company, address, telephone, and fax numbers of each witness must be included in the body of the email. Please exclude any personal identifiable information in the attached submission.

3. Failure to follow the formatting requirements may result in the exclusion of a submission. All submissions for the record are final.

The Committee seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202–225–1721 or 202–226–3411 TDD/TTY in advance of the event (four business days notice is requested). Questions with regard to special accommodation needs in general (including availability of Committee materials in alternative formats) may be directed to the Committee as noted above.

Note: All Committee advisories and news releases are available on the World Wide Web at *http://www.waysandmeans.house.gov/*.

Chairman JOHNSON. Good afternoon, and welcome.

Today the Social Security Board of Trustees finally released this year's annual report on the financial health of Social Security.

Now, we all know Social Security is in trouble, and the first step to solving a problem is to know what you are up against. So today we are going to hear from Social Security's Chief Actuary about the findings in this year's report, which was just released this morning.

We all know how important Social Security is to the millions of Americans receiving benefits, and given the challenges facing Social Security, you would think these annual reports would be released on time. Unfortunately, that has not been the case.

As you can see on the screens, for each year of President Obama's Administration, the Trustees Report has never been released on time. On average, they have been delivered around 75 days late, and this one is 82 days late. And that is not the latest it has ever been released. Let's be thankful that this year's report is not as late as the 2010 report was, which was 126 days late.

The Trustees Report is not a new thing. In fact, it was created as part of the 1939 amendments. Its original due date was the first day of each regular session of the Congress. In the early 1950s, the Congress extended the date to March 1st. Then, in the mid-1960s, the Congress shifted the deadline forward by one more month to give the trustees more time.

The current April 1 deadline has been in place since 1968. It is not a suggested deadline. It is a mandatory deadline. The American people have a right to expect that the deadline will be met, period.

Pat Tiberi, whose Subcommittee oversees Medicare, and I wrote to the Treasury Secretary, Secretary Lew, twice this year asking why this year's report was late. However, the Secretary did not think it was necessary to personally respond to our letters, and that is unacceptable and the American people deserve better.

It is clear this Administration is not serious when it comes to Social Security. This year's budget didn't even include the President's usual empty words about fixing Social Security.

Earlier this month, the President spoke about his plan for Social Security, but he forgot one important thing: The first rule when you are in a hole is to stop digging. During his recent speech in Indiana, the President suggested we should increase Social Security benefits and just ask the wealthiest Americans to pay a little more.

Sounds easy, doesn't it? Well, even taxing every dollar of earnings wouldn't make Social Security solvent, let alone give the program enough money to pay higher benefits. President Obama's tax hike rhetoric doesn't add up and neither does his math.

Make no mistake, we should look to improve benefits for lower-income individuals who work their entire lives paying into Social Security and don't receive that much back in return. But we have to talk about this in the context of real Social Security reform, reform that gets the program on a sound and sustainable financial footing. That means making sure that it is there for our children and our grandchildren, just like it has been there for seniors and individuals with disabilities today.

Look, I have said this before and I will say it again, the longer we wait, the tougher it will be to get Social Security fixed. So the sooner we act, the better.

I thank our witness for being here today.

Thank you so much for giving the latest update on Social Security's finances. I now recognize Mr. Becerra for his opening statement.

Mr. BECERRA. Thank you, Mr. Chairman.

Today, Social Security is strong and it continues to be critically important to the American public. In fact, the need to expand and improve Social Security is growing, because fewer and fewer workers in America today have traditional pensions to count on and it is increasingly difficult for the majority of Americans to save adequately for retirement.

In more than 80 years, Social Security, despite the worst recessions we have seen in this country since the Great Depression—and certainly the one in 2008 was the worst—but in those 80 years, Social Security has never failed to pay benefits in full and on time.

So let's be clear, Social Security is not now and never will be broke. Social Security currently has $2.8 trillion—not million, not billion—$2.8 trillion dollars surplus in its trust fund. That exists because of working Americans making contributions through their paychecks to the trust fund.

Even without the trust fund, Social Security's incoming payroll contributions from American workers would still cover about three-quarters of the benefits Americans have earned and expect to receive. But no one wants to get three-quarters of what they expect, and that shortfall coming in the next decades is a challenge, one we need to address.

But let's be wary of scare tactics that make it seem like Social Security is broken or broke and that our only choice is therefore to cut America's benefits. Remember, last year we heard the claims that Social Security would have to cut benefits for disabled workers by 20 percent. But many of us on the Democratic side fought hard to prevent that kind of a cut and showed that Social Security had the funds to pay the benefits those Americans who earned those benefits were entitled to.

So remember, Social Security has never added one dime to the debt or the deficit. And you can see from this chart, in the 80 years of Social Security, more than 80 years, how much we have collected from American workers and how much we have paid out to those who are beneficiaries, and you can see how we make up that $2.8 trillion surplus.

So let's put the Social Security challenge in perspective. Some people will say you can't count the $2.8 trillion Social Security has in surplus and you can't count the money that everyday American workers are putting into Social Security through their payroll contributions, that it is all funny money.

Well, here is the truth: Social Security is one of the only programs in our Federal Government that pays for itself. And let's take a look at one very important program of the Federal Government, the defense budget and all our military activities to protect the American people. We would all agree that that is something that we must do.

This year our Federal deficit, in part, is due to our military spending. About $114 billion of our Federal budget right now is added to the national deficits and debt. And since the last time we had a balanced budget in fiscal year 2000, we have added about $2.3 trillion in deficit spending for the military to our debt.

By contrast, in those same 15, 16 years, what has Social Security done? Well, in that same time, Social Security's surplus went from $1 trillion in fiscal year 2000 to the $2.8 trillion of today. So not only did Social Security not add one single penny to the national deficits over those 16 years, not only did it not add a penny to the national debt over those 16 years, but it actually increased the size of its surplus in the trust fund by $1.8 trillion.

That is why Social Security is on such secure footing, because American workers contribute to it separately and it is there for them for their benefits into the future.

Moving forward into the future, if someone wants to play the crystal ball game of forecasting what we will spend on Social Security or the military or anything else, then Social Security, with its independent source of funding from Americans' paycheck contributions, is in far better shape than any other segment of the Federal Government. We should not forget that. Social Security has an 80-year track record, as I said, of paying benefits on time and in full.

Its future we must work on to make sure it is as solid as always. And I will put my hat and my bet on Social Security over any other program, private or public, any time of the day.

So, Mr. Chairman, we know that Social Security will face challenges in the future, but let's not manufacture crises. Let's make sure we move forward, and let's take care of the real, immediate crisis that Social Security does face, and that is a funding shortfall that has seen its budget cut by 10 percent since 2010 while it has seen a 15 million increase in the number of beneficiaries from the 45 million it had 6 years ago. That is the real problem, is underfunding the ability of Social Security to provide good service to the American public.

So, Mr. Chairman, I am glad that Mr. Goss is here. I look forward to his testimony. And let's make sure that we are all working to make Social Security sound and secure for the next generations of Americans who can rely on it as well.

I yield back.

Chairman JOHNSON. Thank you.

As is customary, any Member is welcome to submit a statement for the hearing record.

And before we move to our hearing testimony today, I want to remind our witness to please limit your statement to 5 minutes. However, without objection, all the written testimony will be made a part of the hearing record.

We have one witness today. Seated at the table is Stephen Goss, Chief Actuary, Social Security Administration.

Please proceed.

STATEMENT OF STEPHEN C. GOSS, CHIEF ACTUARY, SOCIAL SECURITY ADMINISTRATION

Mr. GOSS. Thank you very much, Chairman Johnson, Mr. Becerra, Members of the Committee, for the opportunity to come and talk to you about the 76th consecutive annual report from the Board of Trustees about the finances in this program.

The statements by the Chairman and Ranking Member have already done a great job talking about what this program is, the 60 million people that it is currently serving. One in 6 Americans is receiving a benefit from this program, 49 million of them from the Old-Age and Survivors Insurance, 11 million of them from the Disability Insurance. In 2015, the program paid out $866 billion in benefits to Americans, $743 billion of that to the OASI side and $143 billion on the DI side.

The asset reserves, as mentioned, are at $2.81 trillion now for the combined OASI and DI trust funds. That is an increase of $23 billion over what they had been at the beginning of the year 2015. Those asset reserves now stand at fully three times the annual cost of the program, which is actually above what has oftentimes been thought to be sort of a desirable contingency reserve level of at least 1 year's cost. So Social Security in the near term is in good shape at the moment.

Based on intermediate assumptions, let me share with you, in the Trustees Report—and I apologize that you have not had more time before this hearing to get to look at this carefully—but where we had a 2.68 percent of payroll, 75-year long-term deficit in last year's Trustees Report, we have a 2.66 percent of payroll deficit in this year's Trustees Report. That is a little bit better. It is a little bit better than it sounds, because just for the passage of time, change in the valuation year to 1 year later, we would have expected the 2.68 to rise to 2.74 percent of payroll deficit, but, in fact, it declined for a number of reasons that we can go into.

The Bipartisan Budget Act that you all participated in making happen, all who pay attention to Social Security are much appreciative of that, was a big reason why the Disability Insurance program has been extended. It has been extended by 6 years, we estimate, as a result of the enactment of that Act. And, in fact, you see for this report we estimate that the reserve depletion date will be extended an additional year on the basis of what has happened in the economy and other aspects of Social Security.

In fact, on the Disability Insurance side, the number of applications for disability has continued to decline, as it has since 2010. It has declined more than we had expected, and that is one of the components that has contributed toward our having 1 extra year beyond 2022 that we reported to Speaker Boehner back in November, and so that is a very, very positive development.

And I would also want to report to you all, this is not included in the Trustees Report obviously, but even more recent developments are that our applications for Social Security Disability benefits have continued to be lower than we had expected. So we hope a year from now to have more good news for you.

Beginning in 2020, however, we are expecting the projected OASDI annual cost to exceed its total current income, which will mean at that point in time that our nominal dollar, our total dollar amount of asset reserves in the trust fund will start to decline. We are projecting on a combined basis the Old-Age Survivors Insurance and Disability Insurance programs will deplete the reserves in 2034. That is the same year that was estimated from last year. So the changes are not dramatic, the improvement is not dramatic, but it is always good to have some improvement.

Over the last 20 years, that reserve depletion date for the combined OASI and DI funds has ranged between 2029 and 2042. We are at 2034 now. And that really speaks to the variability that can occur in the economy and the implications for what the trust funds are and how long they will sustain the ability to pay the full scheduled benefits on a timely basis in the absence of action by you all and the President in changing the law.

In 2034, as I think Mr. Becerra already indicated, we are projecting now that if the reserves were allowed to deplete, we would still have 79 cents of revenue coming in for every $1 of scheduled benefits, but that that will decline to about 74 percent of scheduled benefits by 2090. So action clearly is going to be needed.

As described in the actuarial opinion, and as you all have stated and well understand, should we reach a point of reserve depletion without congressional action we simply will not be able to pay the full scheduled benefits on a timely basis. We have never reached that point before. We have—maybe I shouldn't say this—we have absolute confidence that you all will not allow that to happen.

After reserve depletion, the continuing income for disability, if we were to reach reserve depletion in 2023, we would still have 89 cents for every dollar coming in of continuing income in 2023 for the Disability Insurance program, and that would change to 82 cents for every dollar of scheduled benefits by the time we get out to 2090 for DI.

One other thing that I really want to say is that all of the changes that we have seen happen over the last 20 years for Disability Insurance costs rising and in the next 20 years for retirement cost under Social Security rising is really a matter of the changing age distribution of our population, determined by the changing birth rates that we had after the baby boom generation and the lower birth rates that we expect in the future.

We do need some changes in the future upcoming. We are looking forward to the proposals that you all will be developing and we will be working with you in scoring to be able to make the changes necessary to keep Social Security in good financial shape for the indefinite future.

Thank you very much.

[The prepared statement of Mr. Goss follows:]

The 2016 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds

Testimony by Stephen C. Goss, Chief Actuary, Social Security Administration
House Committee on Ways and Means, Subcommittee on Social Security
June 22, 2016

Chairman Johnson, Ranking Member Becerra, and members of the subcommittee, thank you very much for the opportunity to speak to you today about the 2016 Social Security Trustees Report. This report has been produced and submitted to the Congress every year since 1941, the year after monthly benefits were first paid from a Social Security trust fund.

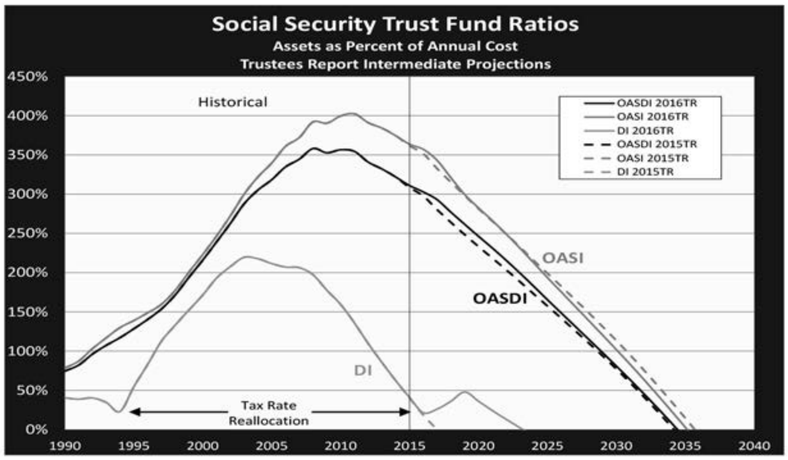
By law, the Trustees are required to report annually on the financial operations of the trust funds for the immediate past year, the projected operations of the trust funds over the next 5 years, and the actuarial status of the trust funds.

2016 Report

During calendar year 2015, the Old-Age and Survivors Insurance (OASI) Trust Fund reserves increased by $51 billion, nearly $10 billion more than projected in last year's report. The Disability Insurance (DI) Trust Fund reserves decreased by $28 billion, over $4 billion less than projected in last year's report. At the beginning of 2016, the combined OASI and DI Trust Fund reserves were over $2.81 trillion, more than three times the annual cost of the program.

Over the next 5 years, the combined reserves will grow through 2019, reaching $2.89 trillion at the beginning of 2020. However, combined reserves will begin to decline in 2020. The decline is projected to be modest, only $3 billion in 2020, but increases thereafter as the baby-boom generations continue to move into retirement ages and are replaced at working ages by the lower-birth-rate generations born after 1964. The OASI and DI Trust Funds, individually and combined, are projected to be fully solvent through the next 5 years, thanks to the enactment last November of the payroll tax rate reallocation included in Bipartisan Budget Act of 2015. At the time of enactment, we estimated that the date of trust fund reserve depletion for DI would be extended 6 years, from 2016 to 2022. In the 2016 Trustees Report, we now project that DI reserves will not deplete until 2023, largely due to the lower than expected recent level of benefit expenditures. Applications for disability benefits have been declining since 2010, and have continued to be below our prior projections.

Actuarial status of the trust funds is assessed on the basis of the projected ability of the trust funds to pay benefits scheduled in the law in full and on time. Under the law, all income is invested in trust fund reserves on a daily basis, and benefit obligations and administrative costs are paid on the basis of redeeming bonds held by the trust funds as needed. The law provides no ability for the trust funds to borrow or receive revenue from other than specified taxes and interest on the reserves. Thus, should reserves become depleted with continuing revenue less than needed to meet current obligations, benefits scheduled in the law would not be payable in full on a timely basis.

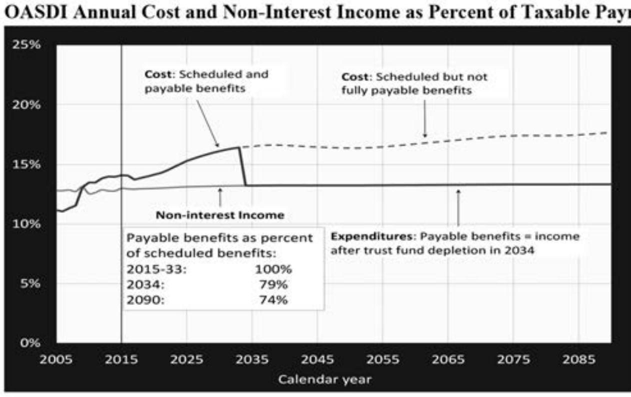


Fortunately, over the entire 80-year history of the program, the Congress has always made timely adjustments in the law to avoid reserve depletion and any sudden reduction in benefits paid. The real purpose of our reporting on the actuarial status of the trust funds is to illustrate to the Congress any expected shortfall in financing of scheduled benefits so that further adjustments to the law can be made on a timely basis.

Under the intermediate assumptions used for the 2016 Trustees Report, we project that the combined reserves will be depleted in 2034, the same year as in the last report, with continuing income under current law equal to 79 percent of program cost at the time of depletion. By the end of the 75-year projection period, income under current law is projected to equal 74 percent of the cost of the program, a small improvement from the projected 73 percent payable in last year's report. The revenue for the OASDI program for 2090 is now projected to fall short of scheduled cost by 4.35 percent of taxable payroll, significantly less than the 4.69 percent shortfall projected for 2090 last year.

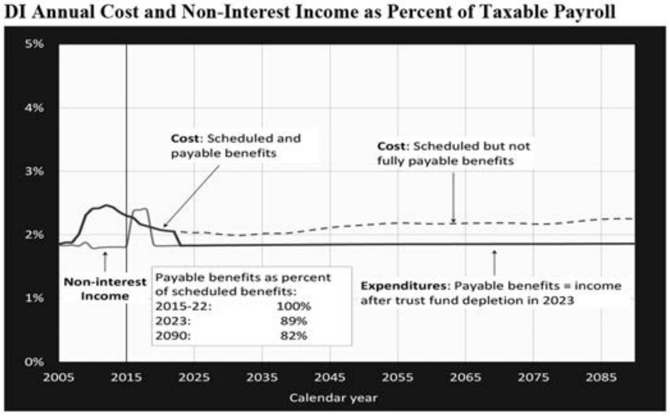
In essence, what this means is that by 2034 we will need adjustments in the law so that (1) the scheduled revenue for the OASDI program is increased by about one-third, (2) scheduled benefits are reduced by about one-fourth, or (3) some combination of these adjustments is enacted. The Trustees have consistently advised that enacting changes soon, even if with delayed effective dates, will allow more options to be considered, more advance warning for those affected, and a more gradual phase-in of adjustments. Over the past 20 years, Trustees Reports have projected reserve depletion as early as 2029 and as late as 2042.

OASDI Annual Cost and Non-Interest Income as Percent of Taxable Payroll



Considered alone, the separate DI Trust Fund will require some adjustment again well before 2034. Even with the changes enacted in the BBA 2015, DI reserves are projected to be depleted in 2023, at which time continuing income would be equal to 89 percent of scheduled cost. By the end of the 75-year period, scheduled income is projected to be sufficient to cover 82 percent of scheduled cost.

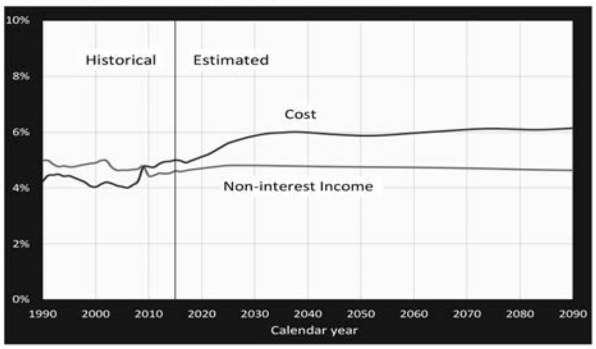
DI Annual Cost and Non-Interest Income as Percent of Taxable Payroll



Expressed as a percent of the total Gross Domestic Product (GDP) of the United States, the scheduled cost of the OASDI program is projected to rise from 5 percent in 2016 to about 6 percent for 2035 and later. Projected scheduled revenue is lower, between 4.6 and 4.8 percent of GDP over this period. The fact that scheduled annual non-interest income, largely the

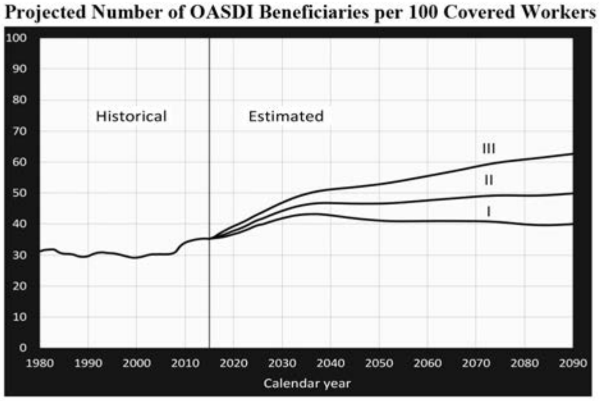
12.4 percent payroll contribution rate, is no longer sufficient to cover annual program cost is primarily due to the changing age distribution of the adult population. However, the fact that projected OASDI cost as a percent of GDP is basically stable after 2035 speaks to the sustainability of the program benefit and revenue structure. The changing age distribution will simply require adjustments in scheduled income and/or cost.

SUSTAINABILITY: Cost as Percent of GDP

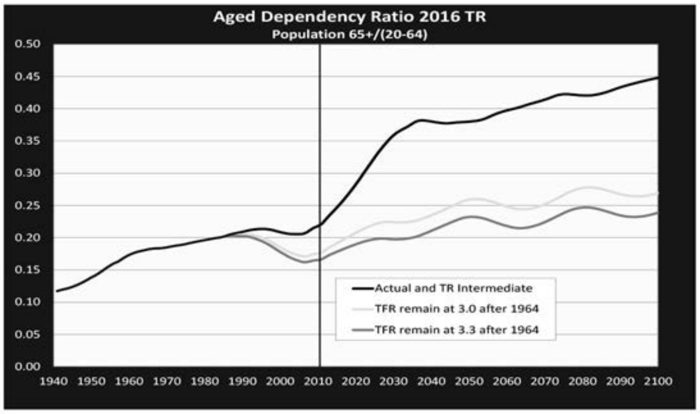


The cost as percent of GDP closely follows the ratio of beneficiaries to covered workers, because the average benefit under the program is designed to rise at about the same rate as average earnings. The intermediate projection is alternative II in the following figure.

Projected Number of OASDI Beneficiaries per 100 Covered Workers



The ratio of beneficiaries to covered workers in turn follows closely the "aged dependency ratio" (population age 65 and over as a percent of the working age population age 20 through 64). The figure below illustrates that the large increase in this ratio between 2010 and 2035 is due primarily to the drop in birth rates from about 3 children per woman historically (3.3 during the baby-boom years) to about 2 children per woman in recent years.



Changes in longevity through declines in death rates play a more gradual but steady role in the trend of the aged-dependency ratio. Changes in death rates over age 65 are important for the actuarial status of the OASDI program. Fortunately, mortality projections used in the Trustees Reports have provided a sound basis for evaluating the actuarial status of the program in the past. While some have suggested assuming dramatically faster mortality improvement, the track record for the Trustees Reports, plus the very substantial deceleration in mortality improvement since 2009, suggest that projections in the 2016 report represent a sound basis for evaluating prospects for the future. See the recent Actuarial Note #158 for further information.

Summary Measures of Actuarial Status

The Trustees Report uses several summary measures and tests to indicate the actuarial status of the trust funds from different perspectives. The actuarial deficit for the OASDI program as a whole decreased from a 75-year shortfall of 2.68 percent of taxable payroll in last year's report to 2.66 percent of payroll in this report. The actuarial deficit is the excess of the cost for full scheduled benefits over the next 75 years, including the cost of having a reserve at the end of the period equal to 100 percent of annual cost, over the scheduled income for the program over the next 75 years, including the starting trust fund reserve level, all expressed as a percent of payroll.

Another summary measure is the unfunded obligation of the program. This is the difference between projected program cost in the next 75 years over the projected revenue (plus starting reserves). For the 2016 report, the unfunded obligation rose slightly expressed in present value dollars, but declined slightly as a percent of GDP over the 75-year period.

Unfundedded Obligation through 2090

Estimate for 2015 Trustees Report	**$10.7 trillion PV**	**0.91% of GDP**
Change valuation date only	**$11.2 trillion PV**	**0.93% of GDP**
All changes except ultimate real interest rate	**$10.5 trillion PV**	**0.87% of GDP**
2016 Trustees Report with interest rate change	**$11.4 trillion PV**	**0.89% of GDP**

Changes in Assumptions and Methods

On balance, changes in legislation, assumptions, recent experience, and methods had a small positive effect on the actuarial status of the OASDI program. The table below highlights the main factors in the change in the actuarial balance for this year.

Principal Reasons for Change in 2016 OASDI Trustees Report

Actuarial Balance – Net change of +0.02 percent of payroll

Valuation period	**-0.06 percent**
Bipartisan Budget Act of 2015 enacted November 2015	**+0.03 percent**
Lower recent fertility and higher recent mortality	**0.00 percent**
Lower emigration for unauthorized population (method)	**+0.09 percent**
Lower ultimate price inflation (CPI-W) from 2.7% to 2.6%	**-0.02 percent**
Increase ultimate real wage differential from 1.17% to 1.20%	**+0.05 percent**
Lower ultimate real interest rate from 2.9% to 2.7%	**-0.08 percent**
Other new data and methods improvements	**+0.02 percent**

The effect of lowering the assumed rate of emigration of undocumented immigrants who have resided here for long periods is about offset by the effect of assuming permanently lower real interest rates.

Lower recent experience for both birth rates and the rate of mortality improvement have significant but offsetting effects. The positive effects of the BBA 2015 and slower growth in employer-sponsored group health insurance premiums overwhelmed the effect of changing the long-range valuation period, leaving a small net positive effect.

The Trustees apply a short-range test of financial adequacy that requires that reserves remain at or grow to at least 100 percent of annual cost over the next 10 years. The OASI Trust Fund as well as the combined OASI and DI Trust Funds satisfy this test. The DI program once again does not.

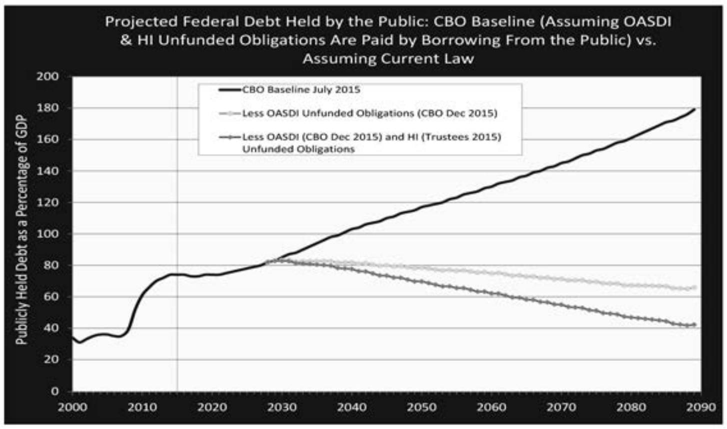
Section 709 of the Social Security Act also requires that the Trustees report to Congress when a Trust Fund is projected to have reserves below 20 percent of annual cost in the future. In order to give Congress ample time to consider necessary adjustments, the Trustees make such reports when the reserve ratio is projected to be below 20 percent within the next 10 years. Again this year, the Trustees have submitted this notice to the Congress for the DI Trust Fund. The DI Trust Fund reserve ratio was 21 percent at the beginning of this year but will rise until 2019 due to the tax rate reallocation enacted last year. The ratio will then decline and will fall below 20 percent by the beginning of 2022, and without Congressional action, reserves will become depleted in 2023.

The Trustees also report on the long-range test for close actuarial balance. This test requires that the program satisfy the short-range test of financial adequacy and, in addition, maintain a positive reserve throughout the remainder of the 75-year projection period, indicating the ability to pay all scheduled benefits in full on a timely basis. At this time, neither the OASI nor DI Trust Funds individually or combined meet this long-range test. While the financial and benefit structure of the OASDI program is sound, adjustments are needed to accommodate the changing age distribution of the population over the next 20 years that is the result of persistent lower birth rates after 1964.

Actuarial Opinion

The Social Security Act requires a statement of actuarial opinion from the Chief Actuary of the Social Security Administration regarding the reasonableness of assumptions and methods used in the report. I am happy to indicate that the actuarial opinion for the OASDI Report has never included a qualification of the assumptions and methods used to project the actual cost and operations of the trust funds under current law. However, starting with the 2014 report, the actuarial opinion has included a caveat regarding a reference added to the OASDI Report to an appendix on federal budget accounting in the Medicare Report. This appendix, first introduced in 2004, describes the implications of projected OASDI and Medicare Trust Fund operations under the customary budget scoring convention. This caveat warns the reader that discussion of the trust funds in relation to the overall federal budget and implications for federal debt held by the public are distorted and misleading because of use of this budget scoring convention. This convention presumes that OASDI obligations scheduled in the law that cannot be paid in full and on time after Trust Fund reserve depletion, will nonetheless be paid at the expense of the General Fund of the Treasury. The General Fund is presumed to borrow from the public as needed to pay full scheduled benefits after reserve depletion. The problems with this convention are: (1) the law does not permit such general fund transfers, either before or after trust fund reserve depletion; (2) there has never been a precedent for a change in the law providing such transfers;

and (3) results presented in the budget scoring context do not provide clear disclosure that they are hypothetical projections presuming a change in law that would allow for the indicated general revenue transfers to the trust funds after reserve depletion. The graph below illustrates that without this budget scoring convention, federal debt held by the public would not be projected to rise to 100 percent of GDP, and would in fact decline after about 2030.



Please note that the 2016 and all prior year's Trustees Reports are available at https://www.ssa.gov/oact/pubs.html, along with a wide variety of additional actuarial analyses related to the reports and to changes policymakers have considered for making adjustments to the program.

Conclusion

Based on the intermediate assumptions of the 2016 Trustees Report, the actuarial status of the OASI and DI Trust Funds is slightly improved compared to last year's report. The long-known and understood shift in the age distribution of the United States population will be increasing the aged dependency ratio, and in turn the cost of the OASDI program as a percentage of taxable payroll and GDP. Once this shift, reflecting the drop in the birth rate after 1964, is complete around 2035, the cost of the program will be relatively stable at around 6 percent of GDP. We look forward to working with this Committee and others in developing the adjustments to the law that will be needed to keep the program in good financial order providing retirement, disability, and survivor benefits for future generations.

Again, thank you for the opportunity to talk about the 2016 Trustees Report. I will be happy to answer any questions you may have.

Chairman JOHNSON. Thank you for your testimony.

We will now turn to questions. And as is customary for each round of questions, I will limit my time to 5 minutes and ask my colleagues to also limit their time as well.

Mr. Goss, welcome. This year's report happens to be 82 days late. Can you tell us what caused the delay this year?

Mr. GOSS. Well, first of all, I would give you my apologies and the apologies of my office on not having gotten this through earlier. As you all know, whether we have four trustees, as we had involved in this year's report, because we did not have Public Trustees engaged, or six trustees, there is a lot to be done in putting together not only the Social Security report, but also the Medicare report. Since 1965, we have had both reports to deal with, and the trustees have deemed to always have both reports come out at the same time.

There is a lot of complexity in both of these laws, lots of changes, and it just takes time for the trustees and their staffs to get together and make the decisions, which sometimes are difficult. When people get together and they have slightly different views on things, they have to work it out, they have to develop their consensus, and it takes time.

The final point that oftentimes occurs and can delay the timing of the Trustees Report is to find the time when all four or six trustees can all get in the same room at the same time. That is not always easy. And I believe earlier today we had all four of our trustees, all ex officio members were there, and it is not always easy to get that.

Chairman JOHNSON. Were they going in the same direction?

I will tell you, I had to send two letters to Secretary Lew before a member of his staff could be bothered to respond to my asking about the delay with the Trustees Report. I ask unanimous consent to place these three letters into the record.

Hearing none.

[The submission of the Honorable Sam Johnson follows:]

COMMITTEE ON WAYS AND MEANS

U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, DC 20515

May 3, 2016

The Honorable Jacob J. Lew
Secretary
Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, D.C. 20220

Dear Secretary Lew,

The reports from the Board of Trustees of the Federal Old-Age and Survivors Insurance, Federal Disability Insurance, Federal Hospital Insurance, and Federal Supplementary Medical Insurance Trust Funds were due on April 1 as required by 42 U.S.C. Sec. 401 and 1395t. These reports are already a month overdue. Please provide in writing when they can be expected and why the statutory deadline was not met.

The Trustees Reports are essential to the oversight of these important programs relied on by millions of seniors and individuals with disabilities. As Managing Trustee of the Trust Funds, you are ultimately responsible for meeting the deadlines required by law. The American people rightfully expect the timely release of these reports.

We look forward to receiving your response. Please contact Amy Shuart, Staff Director of the Subcommittee on Social Security, at (202) 225-9263 or Emily Murry, Staff Director of the Subcommittee on Health, at (202) 225-3943, if you have any questions concerning this letter.

Sincerely,

Sam Johnson
Chairman
Subcommittee on Social Security

Pat Tiberi
Chairman
Subcommittee on Health

COMMITTEE ON WAYS AND MEANS

U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, DC 20515

June 6, 2016

The Honorable Jacob J. Lew
Secretary
Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, D.C. 20220

Dear Secretary Lew,

To date, we have not received your response to our May 3, 2016, letter asking for an update on the reports from the Board of Trustees of the Federal Old-Age and Survivors Insurance, Federal Disability Insurance, Federal Hospital Insurance, and Federal Supplementary Medical Insurance Trust Funds which were due on April 1, as required by 42 U.S.C. Sec. 401 and 1395t. We remain deeply disappointed by this Administration's continued and blatant disregard for current law.

Congress does not establish statutory deadlines lightly and intended that these reports would provide consistent, annual updates on the programs' statuses. Throughout this Administration the Trustees Reports have never been submitted on time and have ranged from 41 days late in 2009 to 118 days late in 2014. Missing a statutory deadline without explanation is simply unacceptable. There is no reason why the committees of jurisdiction are not notified when the Administration chooses to miss the statutory deadline.

Congress and the American people rightfully expect the timely release of these reports. We expect to receive a response to our May 3, 2016, letter no later than Friday, June 10, 2016. Please contact Amy Shuart, Staff Director of the Subcommittee on Social Security, at (202) 225-9263 or Emily Murry, Staff Director of the Subcommittee on Health, at (202) 225-3943, if you have any questions concerning this letter.

Sincerely,

Sam Johnson

Pat Tiberi

Sam Johnson
Chairman
Subcommittee on Social Security

Pat Tiberi
Chairman
Subcommittee on Health

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

June 10, 2016

The Honorable Sam Johnson
U.S. House of Representatives
Washington, DC 20515

Dear Representative Johnson:

Thank you for your recent letters regarding the annual reports from the Board of Trustees of the Federal Old-Age and Survivors Insurance, Federal Hospital Insurance, and Federal Supplementary Medical Insurance Trust Funds (the 2016 Trustees Reports). As you know, these Reports provide policy makers with an independent, data-driven look at the financial position of the Trust Funds and issues that policy makers should consider addressing in the coming years. The Administration strongly believes these critical programs should remain available to assist future generations. For that reason, the Administration has worked with Congress to make concrete progress to extend the life of the Social Security and Medicare Trust Funds, including the passage of the Affordable Care Act and the 2015 Bipartisan Budget Act, but more needs to be done. Accurate information about the state of the Trust Funds is a crucial input into effective policy making.

The work needed to finalize the Trustees' annual reports for 2016 is ongoing. Maintaining the integrity of the information in the reports has taken an unusually large amount of time in recent years because of complex changes in legal, regulatory, and economic conditions. Additionally, the Boards are working to prepare the report this year without the benefit of input from the two Public Trustees because both positions remain vacant at this time. We expect the 2016 Trustees Reports will be finalized and released in the coming days.

Thank you for your interest in this matter. Should you have any questions, please contact Sandra Salstrom, Office of Legislative Affairs, at (202) 622-1900.

Sincerely,

T. Pat M

Thomas Patrick Maloney
Senior Advisor, Office of Legislative Affairs

Identical letter sent to:
The Honorable Pat Tiberi

Chairman JOHNSON. In response, the Treasury staff noted that this year's Trustees Report process was without the benefit of Public Trustees.

Mr. Goss, briefly, what is a Public Trustee and how do they differ from other trustees?

Mr. GOSS. Of course, our four ex officio trustees are those by nature of the job they have within the current Administration. The two Public Trustees who are put forth by the President, but with advice and consent from Members of Congress, are supposed to be of two different parties representing different views, and they do bring a broader perspective to the trustees than might otherwise be the case.

So it is a positive thing to have them there. The law requires that. And when the President does propose Public Trustees and they get confirmed by the Senate, then we have them in place. We simply were not in that position this year.

Chairman JOHNSON. Well, some of our Democrats have argued that one of the most recent Public Trustees, Dr. Blahous, somehow managed to take over the process and change assumptions in the report to overstate Social Security's trouble. Is that true?

Mr. GOSS. Well, I would confess, I have known Chuck Blahous for a long time and I respect him very much, but in the time that I have spent working with trustees over the past years, I have never seen anybody capable of overwhelming five others. And when the trustees work together, they work toward consensus, and they all have signed the reports each year. So what you see, I think, we really have to take, and I would suggest, it represents the consensus of all the members of the board.

Chairman JOHNSON. Okay. Well, thank you for the answer. And in the time remaining, I would like to shift gears and ask you about Social Security and taxes.

Earnings up to a certain amount, called the taxable maximum, are subject to Social Security payroll taxes. This year, what is that amount?

Mr. GOSS. That is $118,500.

Chairman JOHNSON. Some have suggested we should raise that taxable maximum to cover 90 percent of earnings. If that were the case, what would this year's taxable maximum be?

Mr. GOSS. It would be a little bit more than double that level in order to get it back to the same share of all earnings being taxed as we had back in——

Chairman JOHNSON. Would that be enough to make Social Security solvent, though, yes or no?

Mr. GOSS. No, in and of itself it would not for the long run.

Chairman JOHNSON. And if every dollar of earnings were subject to the payroll tax, would it be enough to make Social Security solvent, yes or no?

Mr. GOSS. In and of itself, it would not be sufficient. It would go a long way, but would not be sufficient for the long run.

Chairman JOHNSON. So we can't tax our way to solvency.

Well, thank you. I appreciate your testimony.

And I will recognize my colleague here for questioning.

Mr. BECERRA. Thank you, Mr. Chairman.

Mr. Goss, thanks for your testimony.

Let me have you refer to the chart that is on the screen just to be sure we do the simple math on Social Security. This chart covers the 80-plus years that Social Security has been in existence.

On the left is the amount of money that American workers have paid into the system. As you can see, the gray bar represents the contributions, people's taxpayer contributions, their taxes paid to the payroll tax. The dark blue bar above it is the interest that has been earned on all the money Americans have put into the trust fund, right?

The bar on the right, the red part of it, reflects what we have paid out, the Social Security Administration has paid out to millions of Americans who have received their benefits. As you mentioned, 60 million Americans today are receiving Social Security benefits. That is how much we paid out in those same 80-plus years.

You can't really see it, but there is a little bar, a dark bar right on top of the red bar. That represents the administrative costs, the overhead for Social Security to do its business, less than 1 percent.

Mr. Goss, you have been doing this business for a long time. Are you aware of any business in America that does insurance that operates at an overhead of less than 1 percent?

Mr. GOSS. Unfortunately, no. I think we are unique.

Mr. BECERRA. Yeah. And whether it is your retirement plan or whether it is your savings accounts, I know of no business that can tell me that of the money I put in, that company is only going to take less than 1 percent to operate the business and charge me for their overhead.

And as we can see, there is a surplus there, $2.8 trillion in what is being collected through American workers contributions and what we have had to pay out. I just said that over its 80-plus years, Social Security has never run a deficit, has never contributed a penny to the Nation's debt. Is that an accurate statement?

Mr. GOSS. I would agree with that. Certainly, in the sense that Social Security, it actually, in effect, absorbs debt from the rest of the government. Social Security actually makes loans to the Treasury. When we look at the roughly $19 trillion of total Federal debt, that is comprised in part of the debt the Treasury owes to Social Security.

So I think my view is that it would be accurate to say Social Security does not contribute toward the debt. Actually, it helps finance some of the debt, which otherwise would have to be borrowed from the public.

Mr. BECERRA. So now, let's look forward. Let's not try to deceive anyone. That surplus that we have, the $2.8 trillion, that is a lot of money. But over the years, because there are so many Americans, 60 million-plus, and that is going to grow with the baby boomers retiring, are going to be calling on that money that is in reserve. And by 2034, if the estimates are accurate, we will have exhausted all of the reserve. That means that the only money coming into Social Security will be the money American workers are paying in through their payroll taxes, and that would be enough to cover about 79 cents, I think you said, of what we currently provide in a dollar's worth of benefits.

No American wants to get 79 cents on what Americans today are getting at a dollar apace. And so clearly we want to do something. And so we have the next 20 years or so to resolve that on a bipartisan basis.

But let me ask you to compare, because you work with Social Security. American taxpayers are paying into the Social Security system through their payroll taxes, contributing to the trust fund. The rest of the Federal budget doesn't operate that way, or most of it doesn't operate that way.

And I mentioned, for example, that we have a deficit right now in our Federal operating budget. About $114 billion of that operating deficit, or that deficit that comes from our operating budget, is attributable to what we are spending today, this year, on the military. And if you take a look at what we spent in the last 15 years, as I mentioned, since the last time we had a balanced budget in the Federal Government, we have added about $2.3 trillion in deficit to that national debt as a result of what we spent on the military.

Now, I don't think anyone here is going to say, oh, let's not spend that money on our troops. But we have to recognize, we are deficit spending. In that same time, we have never added to the deficits of the country through Social Security.

And so as we start to talk about long-term projections about where we are going, isn't it important to know if you have a source of funding for the program that you consider vital, whether it is national defense or Social Security? I pose that as a question.

Mr. GOSS. I would absolutely agree. And, of course, there are budget scoring conventions, and I addressed that in the actuarial opinion of the Trustees Report, and different ways of looking at things.

But as far as Social Security is concerned, the OASI and DI trust funds and one of the Hospital Insurance trust funds of Medicare really do stand different from other programs. As Mr. Becerra indicated, they are really not allowed to borrow in any meaningful sense. So we are always in a position of having a positive accumulated balance from the start of time.

Mr. BECERRA. So let me ask you one last question. In the last 6 years has your operation been impacted by the cuts to the Social Security budget, the operating budget for Social Security? Have you been impacted?

Mr. GOSS. Well, Social Security as a whole certainly has. And certainly in our office we have gone through the hiring freezes and restrictions on our ability to hire the number of people we would like to have to be able to serve you in every way that we possibly can. So certainly there are issues.

Mr. BECERRA. Thank you very much.

I yield back, Mr. Chairman.

Chairman JOHNSON. Thank you. The time of the gentleman has expired.

Mr. Renacci, you are recognized.

Mr. RENACCI. Thank you, Mr. Chairman, for holding this important hearing to discuss the 2016 Social Security Trustee Report and discuss the challenges facing this program that plays such a vital role in the retirement income of so many Americans.

Like many of my colleagues, I often hear from my constituents in the district talking about the need to preserve Social Security and ensure that it remains a reliable source of income for retirees. Also, as a father of three, I believe that we have a responsibility to leave our children and grandchildren with a country that is financially stronger than the country that we inherited.

Unfortunately, though, Washington too often chooses to kick the can down the road, call things surpluses when they are truly liabilities, and fails to address the long-term challenges that face our country.

As you can see from the slide that is shown on the screen, over the next 75 years Social Security's unfunded liability is equal to $11.4 trillion. That is a $700 billion increase from last year's report. This dollar amount represents the present value of the shortfall and the amount of revenue that the trust funds will collect compared to what the trust funds owe to Social Security beneficiaries. That is not a surplus. That is an unfunded liability.

Unfortunately, the outlook continues to get worse as Washington delays addressing the problem. In fact, since 2009, the 75-year shortfall has more than doubled, from $5.3 trillion to currently $11.4 trillion today. This is a serious problem that will require difficult decisions to be made. I believe that we must first start by fully understanding the financial challenges that we face not only in Social Security, but also in all unfunded liabilities of the United States.

In the next few days, a bipartisan group that I belong to will be introducing legislation to bring further awareness to both lawmakers and the American people of the unfunded obligations that our country owes on all of our social insurance programs. Our Nation's finances are one of the most important pieces of information that lawmakers should consider when setting the policy agenda for Congress, but too often, I believe that many here in Washington want to ignore those true issues.

This bipartisan legislation will simply require the Comptroller General of the United States to present the financial report of the United States in a joint session of the House and Senate. This will be held 45 days after issuance of an audited financial report to ensure that lawmakers receive the information in an accurate and timely manner. You see, we can't just look at Social Security, we have to look at everything, and I think that is important.

Mr. Goss, you heard a couple words. One of them was unfunded liability. Can you explain the definition of unfunded liability?

Mr. GOSS. Thank you very much for the opportunity.

Actually, yes. The liabilities that you described, we actually refer to per the Federal Accounting Standards Advisory Board as unfunded obligations. And the distinction there really is important. A liability is where you have the legal, contractual basis for having to pay for something in the future.

In the case of Social Security benefits, there is an obligation to pay scheduled benefits in the future, but there is a limitation. We can only pay what we have money to pay. So those amounts of future benefits are really referred to as obligations.

And the unfunded portion of scheduled benefit future cost we refer to as unfunded obligations. Just one small thing on that. We did have $10.7 trillion, our estimated unfunded obligations through 75 years in the 2015 Trustees Report. Just by the simple passage of time, when we start with 2016 for the then next 75 years, that number would have gone up from $10.7 to $11.2 trillion.

That is mainly because we are calculating these unfunded obligations on a present value discounted basis. When we move from 2015 to 2016, it basically just increases the amount by the interest rate for 1 year. So we have gone to $11.2 trillion.

As it happens, changes that were made in the experience and the assumptions other than the interest rate assumption in this report would have taken it from $11.2 down to $10.5 trillion, which is actually lower than we had last year. The one assumption that caused it actually to be larger than last year, even with the valuation period change, was the change in the long-term ultimate real interest rate from 2.9 down to 2.7 percent.

Mr. RENACCI. And I appreciate that. I do understand when you are doing calculations, you take assumptions, and I could take assumptions, you could take assumptions. But basically you show an unfunded obligation, as you call it, unfunded liability, is coming out of this report.

So we can't keep talking about Social Security's surpluses when the report issued today reflects a growing unfunded obligation. I will use your word. I believe that we have a responsibility to take the information that we have received today, work to find a way to appropriately address the sustainability of Social Security so our children and grandchildren do not need to make even more difficult choices in the future in order to maintain the program.

Mr. Chairman, I yield back.

Chairman JOHNSON. Thank you.

Mr. Rice, you are recognized.

Mr. RICE. Thank you, Mr. Chairman.

Could you put the slide back up with the surplus that we have right now?

Everybody agrees that that surplus over time will expire unless we do something. Is that correct, sir?

Mr. GOSS. Absolutely. These are our projections, no question. The surplus side is the accumulated amount of reserves we have. We are using them up.

Mr. RICE. And those reserves will be gone in what year?

Mr. GOSS. Our current statement is that, assuming we look on a combined basis for the two trust funds, 2034.

Mr. RICE. And that is not long-term solvency, is it? The year 2034 is 17 years away.

Mr. GOSS. Exactly.

Mr. RICE. And for many people who are currently already retired or certainly approaching retirement, it will have a dramatic effect on their retirement income, correct?

Mr. GOSS. If we do not act, if we do not make changes in the law to avert that.

Mr. RICE. How would you define long-term solvency? How long do you think we should be planning in advance for expiration of these reserves? What would be a comfortable margin for you?

Mr. GOSS. That is a really good question. The nature of the way the program has been financed virtually from the beginning is a pay-as-you-go current-cost finance system, not an advance funded system.

Generally, what the trustees and past advisory councils over decades have said is have a contingency reserve throughout equal to at least 1 year's worth of——

Mr. RICE. So you don't look for something that will be maintained for 75 years or 50 years, those aren't objectives for you?

Mr. GOSS. Oh, no, no, we really do, because of the three things that are required by the Congress for the trustees to report on, one of them being the actuarial status of the program. That has been interpreted most recently and generally as being a 75-year outlook to make sure that we are, indeed, solvent, that we are able to pay all scheduled benefits on time and in full throughout that 75-year period.

Mr. RICE. And right now you are saying we are solvent for the next 17 years, but we are not solvent after that?

Mr. GOSS. We are not achieving full long-range solvency, absolutely——

Mr. RICE. Okay. And the problem is this demographic wave that we face, correct?

Mr. GOSS. Exactly.

Mr. RICE. When will that wave recede? It is not forever. It is not eternal. Do you have any projections on when that wave will recede?

Mr. GOSS. This is the perfect question. Thank you very much.

Many people have thought in the past that the baby boom generation being large will come in, they will cause us first disability increased costs, which they already have. Now that they are moving into retirement they will cause us increased costs in retirement. One might think that they will move through and go away and not be causing this increased cost. Actually, that is not the case. The reason we call it a baby boom generation is actually because the birth rates dropped after 1965 and have stayed at a lower level.

Mr. RICE. And they are continuing to drop. So you don't see this wave receding within the 75-year window?

Mr. GOSS. This wave is not receding. In fact, it is the reason why we are going to go from a total cost of 5 percent of GDP up to 6 percent of GDP.

Mr. RICE. Okay. Thank you. I just have very limited time. I hate to rush you, and I am sorry.

What specific proposals has the Administration made to give solvency to the Social Security trust fund for the next 75 years?

Mr. GOSS. You know, the Administration, many Members of Congress have looked at various different options.

Mr. RICE. Well, what specific proposals has the President made?

Mr. GOSS. We saw early on a proposal relative to the cost-of-living adjustment. We have seen proposals relative to immigration.

Mr. RICE. So that is chained-CPI you are talking about?

Mr. GOSS. That was early on in the Administration.

Mr. RICE. That was a specific proposal. What other specific proposals has he made?

Mr. GOSS. There have been proposals relative to comprehensive immigration reform. And I think those have been the primary ones that have been specifically put forward.

Mr. RICE. Comprehensive immigration. That doesn't really deal directly with Social Security, that deals with immigration.

Mr. GOSS. Exactly.

Mr. RICE. So the only proposal he has made is to cut the cost-of-living adjustment? That is it?

Let me ask you this. How long would that make the Social Security trust funds solvent? How many years would that add? I know you have run those numbers. How many years would that add?

Mr. GOSS. Oh, wow. We have that available up on our website. It would probably add 2 or 3 or 4 years to the year of reserve depletion.

Mr. RICE. Two or 3 or 4. So instead of it being 16 years from now that the trust funds go broke, we are talking about 20. That is not exactly long-term solvency of the program, is it?

Mr. GOSS. But we know that a full comprehensive fix is going to include lots of moving parts.

Mr. RICE. But we haven't seen any proposals from the Administration other than that one of cutting the cost-of-living adjustment? Is that right?

Mr. GOSS. Well, there have been other things like the claiming strategies, the aggressive claiming strategies that were addressed in one of the budgets.

Mr. RICE. Okay. All right. What would you suggest, do you have any suggestions for us on how we fix this? I mean, it gets more expensive every year to fix it, correct? What suggestions do you have? I mean, you have limited options, because you have revenues decreasing and you have expenses increasing, and the expenses are going to pass the revenues by 2020, right?

So you really have limited options. You either have to increase revenue or you have to decrease expense, right? So what would you suggest? What specific ways would you suggest to fix Social Security, besides the chained-CPI?

Mr. GOSS. What I would have to say, and the way we have to do our job is never really to answer that question, and I apologize for that, because what we are going to do is work for people on both sides of the aisle on all of the ideas that they have for making changes to either increase revenue or alter benefits or to——

Mr. RICE. Yeah, but you are an actuary. You can do this on the back of your hand.

Have you seen the AARP marketing about tell the Presidential candidates to take a stand? Have you seen that?

Mr. GOSS. No, I haven't.

Mr. RICE. It has been on TV a lot. It says tell the candidates to take a stand.

I want to know what specific proposals you would make for long-term solvency, solvency for 75 years.

Mr. GOSS. The only thing I could possibly say here—well, first of all, let me ask you this. Whenever we have dealt over the decades that I have been around with Members of Congress in private or in any other forum, we always ask, what precisely is your goal?

Mr. RICE. Seventy-five-year solvency.

Mr. GOSS. Okay. So 75-year solvency is the goal we want to achieve. Then the question is, do we want to do that by lowering the scheduled benefits, staying within the 12.4 percent tax rate we have, or do we want to maintain the benefits and find more revenue?

Mr. RICE. Okay. See, my friend, here is what I think the American people are upset about: We keep telling them what the problem is, but we are not offering solutions for them. The Administration has offered one, and that is cut the COLA. I am asking you for solutions.

Mr. GOSS. Okay. Well, we fortunately have up on our web page, *SSA.gov/oact*, over 100 individual provisions actually not that we have come up with, but that Members of Congress have. And here is a little version of it. I can give you a couple copies if anybody would like, but it is right up on our web page. All of your staff already have access to this, well over 100 different provisions that affect Social Security in almost every way you can imagine. So what we really need now is for our collective judgment to get together and pick which of these different provisions we want.

Mr. RICE. You guys are waist deep in the swamp. You know this better than anybody else.

Chairman JOHNSON. The time of the gentleman has expired. Thank you.

Mr. RICE. Thank you, sir. Thank you.

Chairman JOHNSON. Mr. Kelly, you are recognized.

Mr. KELLY. Thank you, Chairman.

Mr. Goss, thanks for being here.

I want to go back to what the Chairman started with, a question about Mr. Blahous being on the Board. And the question then came up in the *Huffington Post* with Senator Schumer, Senator Warren, and Senator Whitehouse, something that says it was kind of curious—let's see how they said it, because it was kind of interesting, I thought, the way they stated it.

More or less that it was curious, there was curiously incorporated a number of assumptions playing up the potential insolvency of the program, and it had to do with Mr. Blahous.

You would say there is nothing he has done in that time period that would make you think that somehow this is politically motivated and that him being reappointed, even though the President is the one that nominated him, that it causes a problem, is it? Are you in agreement with that, that Mr. Blahous is not a problem, you haven't seen anything that he has done that is curious that could have influenced the outcomes?

Mr. GOSS. Well, I have been fortunate enough to work with the trustees all the way back to our very first two Public Trustees, Mary Falvey Fuller and Suzanne Denbo Jaffe, and it has really been a pleasure working with all of them. We understand that they come from different perspectives.

Mr. KELLY. So he is not a problem, you don't look at him as a problem, you don't look at anything about his behavior or anything that he submits as being one of the trustees as curious?

Mr. GOSS. It is really not our place to evaluate whether someone is a positive or negative. What I would say is really what I take to be wonderful about this process, is that we get four, and generally six, different trustees involved with different views and that we coalesce——

Mr. KELLY. Yeah, but you did say there is none of the trustees that has an overwhelming influence.

Mr. GOSS. That is absolutely true. There are six. No one or two can control.

Mr. KELLY. Okay. So I am going to take that that as a body you don't see any problem.

And I would like to submit this for the record, if I could, Chairman.

[The submission of the Honorable Mike Kelly follows:]

THE BLOG

The Koch Brothers Are Trying To Handpick Government Officials. We Have To Stop Them.

06/07/2016 11:32 am ET | **Updated** Jun 07, 2016

Sen. Elizabeth Warren
Democratic Senator from Massachusetts

Sen. Charles E. Schumer
Democratic U.S. Senator from New York

Sen. Sheldon Whitehouse
Democratic Senator from Rhode Island

On Wednesday, members of the Senate Finance Committee will vote on the nomination of Charles Blahous, a Republican, to serve a second term as a public trustee for Social Security. Mr. Blahous, a prominent opponent of Social Security and the architect of President George W. Bush's efforts to privatize benefits, is part of an army of aggressive conservative ideologues groomed for government service and bankrolled by the Koch brothers. Their purpose is clear — to tilt the game in Washington ever further in favor of corporate special interests. The Senate should reject them.

For more than a decade, conservative activists like the Koch brothers have worked to distort our politics by using their vast corporate and personal wealth to rig the rules in Washington in favor of giant corporations like theirs. Their acidic influence on our elections is obvious, as far-right activists have exploited our broken campaign finance system to bankroll candidates who will espouse their rigidly pro-corporate, anti-government view.

But there is another, less obvious way that wealthy activists advance these interests. Through tax-deductible "charitable" donations, the Kochs are systematically manufacturing a legion of "experts" at universities and think tanks across the country — and then fighting to place them in Executive Branch positions so they can undermine the government from the inside.

Mr. Blahous is one such individual. He is a long-time opponent of Social Security who served as the Executive Director of a commission under President George W. Bush that tried to privatize the program. In numerous books and articles, he has argued that Social Security's meager retirement benefits, which average a little over $1,300 a month, are actually too generous and should be slashed. Just last year, he fought against a bipartisan solution that saved Social Security disability recipients from devastating cuts.

The position to which Mr. Blahous has been re-nominated is an obscure one — serving on the Social Security Board of Trustees — whose principal task is to produce an annual report to Congress detailing the financial state of Social Security. Republican Senators have protested that it is merely a technical position. But leveraging any and all government positions to advance their pro-corporate, anti-government agenda is the entire point of the Koch effort, and Mr. Blahous is a prime example.

And what kind of impact can Mr. Blahous have? During his prior term as a trustee, the 2014 trustees report curiously incorporated a number of assumptions playing up the potential future insolvency of the program — a key talking point in the right-wing war on Social Security. These assumptions were so troublesome that the independent Chief Actuary for Social Security took the unprecedented step of writing a public statement of actuarial opinion disagreeing with the report. After similarly questionable elements appeared in the 2015 report, the Chief Actuary repeated this extraordinary public rebuke. It's no wonder that some have described Mr. Blahous as a fox guarding the Social Security hen house.

When he's not working inside government to undermine Social Security, Mr. Blahous burnishes his credentials by serving as a senior fellow at the Mercatus Institute, a Koch front-group which funds dozens of scholars who zealously pursue the Koch anti-government agenda. Since his start at Mercatus in 2011, Blahous has published article after article warning the public that Social Security is a broken program doomed to fail. Mercatus "scholars" benefit from the veneer of academic objectivity that comes from its affiliation with George Mason University - but history professor Clayton Coppin, who studies the Kochs, describes Mercatus as, "a lobbying group disguised as a disinterested academic program." And there's no question who that lobbying group works for. The Kochs have funded Mercatus to the tune of nearly $10 million. Charles Koch and Richard Fink, a key Koch operative and the director of Koch charities, sit on its board.

Mr. Blahaus is not alone. Hester Peirce, a Republican whose nomination to a seat on the Securities and Exchange Commission (SEC) is currently pending, is also a senior fellow at Mercatus — and a rabid opponent of many of the SEC's legal responsibilities. After the 2008 financial collapse, Congress directed the SEC to implement dozens of new rules to protect against another meltdown. Ms. Peirce aggressively opposes many of those legal requirements. She edited and contributed to an entire book assaulting Congress's new law and has attacked certain requirements as "pointless" and in need of "major surgery." After a federal court rejected a challenge to one SEC rule required by Congress, Ms. Peirce publicly advocated for the SEC to "stop itself" from requiring immediate compliance with the rule. If confirmed, Ms. Peirce will have the tools to sabotage the SEC from the inside.

Because they seek to serve on government panels that require a balance of Democratic and Republican nominees, right-wing ideologues like Mr. Blahous and Ms. Peirce are able to seek appointments even under a Democratic president who strongly supports Social Security and financial reform. Such rules are designed to promote the selection of mainstream, consensus nominees who can provide bipartisan government management. While Democrats continue to put forward such nominees for these jobs, Republicans have outsourced their selections to anti-government activists like the Kochs.

The Kochs understand what many forget - at all levels of government, personnel is policy. They are dumping enormous resources into placing their own ideological extremists who share their destructive worldview into state and local governments, Congress, and even federal agencies. Those who believe government should do more than serve the wishes of wealthy corporations and their billionaire owners must fight back. In the Senate, that fight begins with stopping the confirmations of Mr. Blahous and Ms. Peirce.

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CONVERSATIONS

Mr. KELLY. It comes out of the *Huffington Post* where the three Senators seem to be alarmed that somehow Mr. Blahous would be reappointed.

It doesn't seem to me that is an objective statement, but, again, we live in such a political environment that we have to do these things.

All of the things that we talked about—and I am just trying to think. I come from the private sector, and usually deadlines actually mean something, and there is a penalty if you don't reach the deadline. And this is established pretty much as that is the end line, that is the end time. Why so late?

Mr. GOSS. Well, again, as mentioned earlier, my office is not in complete control, obviously, at developing these reports. We really are doing our work for the Board of Trustees. And the Board of Trustees, the four ex officio Members of the present Administration——

Mr. KELLY. But the whole purpose of the report, though, is that we can get an early indication of where we are going with this. And if you have to make a correction, I think with anything in life, the earlier you learn about something, the better to respond to it. You can change the direction of something, you can be aware of something and start to move in a different direction so it doesn't actually crash on you.

I am just trying to understand, and the Chairman spoke about this very clearly. But the number of days, I mean, 118 days, 112 days, 82 days, 60 days, 128 days, that seems to be way beyond the pale. But for somebody to say, listen, I know you missed the deadline, but you only missed it by a couple hours maybe or a couple days, but when we go into months of not being able to get that information, what would cause that to happen?

Mr. GOSS. Again, it is really—it is just the process of developing consensus——

Mr. KELLY. I get that. So it is a collaborative effort, I guess. I am just trying to understand how in the world you would fix something. We look at these things. They seem to be pretty self-evident to me.

And I look at this a little bit differently than some of the folks. I know where the actual revenue comes from. This comes out of people who are working. They are called wage taxes.

So all the revenue we collect comes out of working people. And we have seen a very low labor participation rate. So we have fewer people working, which means there are fewer funds going in. And I know we can play around with the numbers of what people are being paid and what the percentage would be, but it is capped at a certain level.

This program that we say is solvent, we don't have to worry about it, in over 80 years we have built some type of a surplus, it is a paper surplus. You don't really have a sense, at least I don't, that there is some stability in this program that we can go forward knowing this is going to be okay.

You are an actuary, and I know what actuaries do, and I don't care what line of business it is, you are calling out things that you see on the horizon, kind of sending out warning flags of, look, we are not going to be able to sustain this kind of program if we don't do something dramatic soon.

Mr. GOSS. Well, there are really two aspects of this. One is the $2.8 trillion that we have now, it is required by law that any reserves that Social Security has be invested in interest-bearing securities backed by the full faith and credit of the United States Government, which is probably as secure as it gets anywhere. So I would suggest that $2.8 trillion, we should really say we can absolutely count on.

Is Social Security fully funded for the long term? It is not at this point. As mentioned before, we have currently an estimated $11.4 trillion of unfunded obligation, which, by the way, is actually a smaller percentage of GDP over the next 75 years than the value that we had in the last report. It is 0.89 percent of the GDP over the same 75-year period. Last year it was 0.91 percent of GDP over the 75-year period. Because, remember, $11.4 trillion sounds like an awful lot of money, but that is a 75-year shortfall. We have to look at it relative to the 75-year wherewithal to be able to cover that.

Do we have a shortfall? Yes. We do need to, one way or the other, come up with a way to either increase revenue on the order of a third or reduce the scheduled benefits on the order of one-fourth relative to what we have in current law by the time we get to 2034.

And, again, we are incredibly eager, myself and others from my office and at the Social Security Administration, to work with you all and your wonderful staffs on getting there.

Mr. KELLY. And I appreciate it, because we are all in this for the same reason. But, really, long term, there are only two things you can look at. When you indulge in deficit spending for too long a period of time there is no bright light at the end of the tunnel other than maybe a freight train coming at you.

You are either able to decrease your spending or increase your revenue, one or the other, a combination of both would be great, but we have to get people back to work in an economy that is actually steamrolling along and not growing at below 1 percent and think that somehow things are going to get better if we just wait long enough.

Thanks so much for being here. But I do want to stay in touch with you, because this is a great concern for every single American.

Chairman JOHNSON. The gentleman's time has expired.

Mr. Smith, you are recognized.

Mr. SMITH. Thank you, Mr. Chairman.

And thank you, Mr. Goss, for your presence here today.

I think it is important to note that the longer we wait to make changes, the more difficult it will get.

But just to clarify, you just said that Social Security is not fully funded, and yet, we heard earlier and there was a graph up there that suggests that there is a surplus. I mean, that to me doesn't level. Would you characterize that as a surplus?

Mr. GOSS. Well, it is an accumulated surplus that we have had up to this point. We do have $2.8 trillion available now. I hesitate to try an analogy, but, for instance, if we want to put our child through college for 4 years and we have enough money available right now to pay for the first year but not the latter 3, then we do have a nice piece of money here ready to cover 1 year.

Mr. SMITH. Would you call that a surplus, given the suggestion of obligation for a 4-year degree?

Mr. GOSS. Well, it is certainly a surplus in the sense that in that case and certainly in this case, where we have since the inception of the program, first taxes collected in 1937, we have accumulated more tax revenue collected than we have paid out to date.

And, again, looking at it from the point of view as a current-cost finance or a pay-as-you-go system, which it is, in that sense we have a surplus. Our real challenge is——

Mr. SMITH. But perhaps a better approach would be to suggest that it is not fully funded, as I heard from you?

Mr. GOSS. To say it is not fully advance funded over the long term, there is no question about that.

Mr. SMITH. All right. Okay.

Now, is there any way to quantify, perhaps, that delaying a decision, that the cost of delay is X? I mean, have you sorted that out? Is there a way to really quantify that?

Because when I talk to especially younger folks who are paying in to Social Security and when we tell them that those dollars won't be there long term if no changes are made, is there any way to quantify that?

Mr. GOSS. Well, what I would suggest is that we do know that looking on a combined OASI and DI trust fund basis, we can pay about 79 cents on the dollar, ultimately about 74 cents. So we are about 25 percent short on benefits, on the ability to pay benefits.

Mr. SMITH. On the continuum of time, the longer we wait, I mean, it only gets worse.

Mr. GOSS. But here is the question. If we were to enact a proposal today that would lower benefits by about a quarter or raise revenue by about a third as of 2034, that is exactly the same 2034 problem as if we enacted 5 years or 10 years from now.

The real difference in taking longer to consolidate on the decision that you all will make about how we ought to change things is that if we wait longer we will probably limit the options we have available, we will give people less advance warning, and we may be able to phase in changes less gradually.

The beauty of the 1983 Social Security amendments, which were the ones that raised our normal retirement age, didn't start to raise it until 17 years later. It is wonderful to give the American people that kind of advanced warning. So that is why I think everybody has been encouraging you all to give us legislation sooner rather than later.

Mr. SMITH. Sure. And I can appreciate that.

Now, previous messages from Public Trustees have noted that even if not a single dollar were paid to new beneficiaries once the trust funds are exhausted, there still wouldn't be enough money to pay benefits for those already receiving them. Is that still true?

Mr. GOSS. That is true. That is a rather interesting notion, though, of saying that every year the number of people who start to receive benefits is roughly 5 percent of the total number of people who receive benefits. So I am not sure that anybody would seriously consider saying let's continue to pay full, unaltered benefits to all the people who started receiving benefits a year or 2 or 3 years ago, but new people coming in will get nothing.

Mr. SMITH. But it helps us reflect kind of the obligations that are there. And I think it is very advisable for us, on both sides of the aisle, to acknowledge the realities that are out there.

I mean, I cannot suggest that there is a surplus, given all of the obligations long term. And believe me, we need to think longer term about especially this issue, given what has been promised over the past and hopefully will in the future.

Thank you, I yield back.

Chairman JOHNSON. Thank you.

Mr. Buchanan, you are recognized.

Mr. BUCHANAN. Thank you, Mr. Goss, for coming. We all appreciate it.

I am from Florida, Sarasota, and there are 217,000 people in my district out of 700,000 that count on Social Security.

But I want to go back to the gentleman's point from California about the surplus. I mean, really, as you mentioned, there is really no money there. It is an IOU from the Federal Government. Is that right?

Mr. GOSS. Well, to the extent that any Treasury bond or savings bond that any of us might hold is an IOU from the government, that would be true.

Mr. BUCHANAN. So, basically, what you have is that $2.7 trillion or whatever that number is, is Treasuries from the Federal Government. Is that right?

Mr. GOSS. It is Treasuries, exactly. And it represents, of course, the excess funds that have been accumulated by Social Security by having taxes more than what we spent with interest.

Mr. BUCHANAN. When you look at your ability to get repaid, my concern is, when I ran for Congress, I was concerned about the $130 billion in deficits when I came in 2007. I remember back then it was about $130 billion that year. We went from $8 trillion and change to almost maybe $8 to $9 trillion, in that range. Today, we are at $19 trillion. We have accumulated, in 10 years, $10 trillion in debt.

So I ask you, do you look at the viability, you know, when you are counting on the government in a sense for their ability to repay? I mean, you are counting on that $3 trillion to make sure you can get to 2034, but as they accumulate debt—and there is plenty of blame to go around. It is not a Democrat issue, it is both, I will put it that way right up front.

But when you look at the health of the lender, basically, or the borrower, I mean, how do you factor that in? Or do you factor that in, the fact that they are almost $20 trillion in debt? And if you had the normal cost of money today, the way it has been over the last 40 years, it would be 4 or 5 percent, you could have interest, $700, $800 billion on that debt if it got back up to where it has historically been.

So I guess I ask you that question. When you look at this, you look at your ability to get repaid the $3 trillion, you ought to look at the U.S. Government and their ability to pay. Are you confident that 10 years from now, if we keep going down this track, you are going to ever see your $3 trillion?

Mr. GOSS. Well, I would suggest that if we ever reach a point where the Federal Government as a whole is unable to repay the gradual amounts of annual shortfalls that Social Security is drawing from its trust funds, we will probably have much more severe problems than just the situation with Social Security given the level of total Federal debt that we have.

Mr. BUCHANAN. Let me, because we are all limited on time, let me just say, I was born in Detroit. A great city. I lived in the Detroit area, my wife and myself. It is the fourth-largest city in America. It was very viable. It went bankrupt. And you know what, all the firefighters, the police officers, a lot of my family members in the Detroit area, I have heard all the stories—I live in Florida now—but they took a haircut, all of them. And I never would have imagined for a lot of years that that would ever happen to Detroit. It is a great area, great city, but obviously, everybody got a haircut.

And when we are just kind of not paying attention to the debt and the other liabilities that are out there, we are kidding ourselves, frankly. And that is why the sooner the better that we work together on a bipartisan basis to deal with this.

The second thing, let me just ask you, is the cost of living. A lot of the seniors, I do a lot of town halls, they want to know. They didn't get a cost-of-living adjustment for the last year or two. What are your thoughts on that? And then, of course, next year, where do you see that going?

Mr. GOSS. The CPI that determined last year's cost-of-living adjustment, which turned out to be zero, we actually had the CPI going down by I think it was three- or four-tenths of a percent. In order to have a cost-of-living adjustment coming up December of this year, we have to make that up by the rules of the way the cost-of-living adjustments work and go above.

Our current projection, our estimation in the new Trustees Report is that we will have a two-tenths of 1 percent increase for the cost-of-living adjustment. It depends on lots of factors in the economy. We have all seen the price of gasoline going up some. So at this point we are expecting we should be on the order of two-tenths. Could it be more or less? It depends on what happens between now and the end of September.

Mr. BUCHANAN. So your thought, there might be something next go around?

Mr. GOSS. Our current expectation and our projection is that we will have a positive cost-of-living adjustment next time.

Mr. BUCHANAN. Thank you. I yield back.

Chairman JOHNSON. Thank you.

Mr. Dold, you are recognized.

Mr. DOLD. Thank you, Mr. Chairman.

Mr. Goss, we certainly appreciate you coming in and testifying before us today.

I think the common theme that you are hearing from everybody is that we are looking to try to figure out in a bipartisan way how we can move forward. How do we make this solvent? And as you were talking to my colleague, Mr. Rice, for 75 years. So when you say, what do we want? We want something solvent for 75 years.

And as we look out there, you say, well, we are not really responsible for coming up with ideas. Frankly, you are the ones that are living it each and every day. You know the ideas that are going to work, the ideas that potentially aren't going to work.

So let me put you back on the hot seat for just a little bit. Out of the 100 proposals that you have seen out there, there have to be a couple that have risen to the top. And, again, Mr. Becerra is here representing the other side of the aisle, I am sure he is interested also in ways that we can try to make this solvent. Because the one thing that we do know is life expectancy when Social Security was enacted was significantly lower than it is today.

Do you know what the life expectancy was when Social Security was enacted, roughly?

Mr. GOSS. Life expectancy at birth or at 65?

Mr. DOLD. Life expectancy when Social Security actually came into the fold.

Mr. GOSS. Life expectancy at 65 was considerably less than it is now, no question.

Mr. DOLD. So we are living a lot longer lives for many different reasons. And ultimately what that means is it puts additional pressure on us, largely because, again, we have a labor force participation rate, which as Mr. Kelly pointed out to us, is the economic engine that is actually funding Social Security today.

My question to you, as we look at this—and back in the 10th District in Illinois we have about 105,000 people that are on Social Security, a little over 83,000 of those are over 65. And is there a way that we can be focusing, as opposed to an across-the-board increase, on ones that we can help, perhaps those that need it most, some of the lower-income earners? Have you seen some of the proposals that are intriguing out of the 100 that you have listed on the website that might be helpful?

Mr. GOSS. There is no question we have a lot of proposals in here that would operate for people at different lifetime earnings levels in very differential ways. We have one proposal that suggests that, for instance, in our benefit formula, which now has a weighting to give a higher rate of return, a higher replacement rate for low-income folks than high-income folks, to make that tilt stronger.

We have had proposals that would increase the now really ineffective special minimum benefit that we have for folks at the bottom end, because it was only CPI indexed, and so it has, in effect, disappeared in terms of effectiveness, to restore a minimum benefit. And these proposals can be done in such a way that they would have an overall savings by lowering the rate of return for the highest earners and increasing to some degree the rate of return for the low earners.

So we have lots and lots of different approaches.

I would also mention there is not only the payroll tax, but, in fact, a former, although fairly brief Chairman of this Committee and Chairman of the House Budget Committee had at a point in some of the provisions that we scored proposed having employer-sponsored group health insurance premiums subject to the tax that contributes to the Social Security trust fund.

So we have lots of different potential ways we have indicated here for generating more revenue, lots of different ways for altering benefits, some of which could be across-the-board reductions, some would reduce higher earners more than lower earners. So we have a great variety to the point of what I could speak is that there are some provisions that we have probably seen more often than others. And ones to, for instance, as mentioned here, increase our taxable maximum from $118,500 to something a little bit more than double, to restore it back to where we were in 1983 and 1984 where we did have 90 percent of all wage income falling below our taxable maximum. The changing distribution of earnings in our economy has really altered that for about 83 percent. That would make a contribution.

Many people have looked at the retirement age that we have increased, from 65 up to 67. By 2022, we will be at 67 for the full retirement age at which you can get the full and unreduced benefit. Some have suggested indexing it after we get to that point.

One commission, if I may just mention very briefly, I believe it was the Simpson-Bowles commission, actually suggested indexing the retirement age but doing it in such a way that long-career low earners would not be subject to the full and possibly not any of the increase in the retirement age.

So there is an incredible variety of possibilities here that we hope we can work with you all in considering.

Mr. DOLD. Mr. Goss, you mentioned before in terms of raising that age from 67 in 2022. What does raising the age by an additional year do to expanding it from what it is now, insolvency at 2034?

Mr. GOSS. For 2034, it would really do very little, because we would be only talking about affecting people who attain age 62 after the year 2022. To affect them by having some lower level of benefit or asking them to wait another couple of months or a year to start receiving their benefits, the cumulative effect through 2034 would be very small, which really speaks to the notion that we really need to have a whole market basket of different possible changes put together for the next conference on reform.

Mr. DOLD. Mr. Goss, we certainly look forward to working with you in a bipartisan way, because we know that the longer we wait, the fewer options that we have. And we certainly need to talk about solvency, because we have too many people that are relying on Social Security for a vast majority of their income in retirement.

Thank you. I yield back.

Chairman JOHNSON. I want to thank all the Members who are here, including my Democrat colleague.

And, you know, Social Security faces serious challenges and needs serious solutions, not empty words and plans that just don't add up. I look forward to working with all my colleagues, and with you too, Mr. Goss, to find ways to make sure Social Security is a program that our children and grandchildren can count on, just as seniors and individuals with disabilities do today.

I want to thank you, again, for our witness, for his testimony, and also thank all the Members for being here today. God bless you all.

With that, this Subcommittee stands adjourned.

[Whereupon, at 3:05 p.m., the Subcommittee was adjourned.]

[Submissions for the Record follow:]

Comments for the Record
United States House of Representatives
Committee on Ways and Means
Social Security Subcommittee

Hearing on the 2016 Annual Report of the
Social Security Board of Trustees
Wednesday, June 22, 2016, 2:00 PM

By Michael G. Bindner
Center for Fiscal Equity

Chairman Johnson and Ranking Member Becerra, thank you for the opportunity to submit my comments on this topic. I will leave it to the Administration's witnesses to explain the Trustees' Report and will instead confine myself to what needs to be done in the future, with special emphasis on what not to do. These remarks will be similar to those regarding the 2011 Trustees report, but at this point they bear repeating.

Lessons from the Great Recession

The only observation I will make regarding the Trustees report is that the 2008 Recession triggered by our continuing asset-based Depression has both temporary and permanent effects on the trust fund's cash flow. The temporary effect is a decline in revenue caused by a slower economy and the temporary cut in payroll tax rates to provide stimulus.

The permanent effect is the early retirement of many who had planned to work longer, but because of the recent recession and slow recovery, this cohort has decided to leave the labor force for good when their extended unemployment ran out. This cohort is the older 77ers and 99ers who needed some kind of income to survive. The combination of age discrimination and the ability to retire has led them to the decision to retire before they had planned to do so, which impacts the cash flow of the trust fund, but not the overall payout (as lower benefit levels offset the impact of the decision to retire early on their total retirement cost to the system).

When Social Security was saved in the early 1980s, payroll taxes were increased to build up a Trust Fund for the retirement of the Baby Boom generation. The building of this allowed the government to use these revenues to finance current operations, allowing the President and his allies in Congress to honor their commitment to preserving the last increment of his signature tax cut.

This trust fund is now coming due, so it is entirely appropriate to rely on increased income tax revenue to redeem them. It would be entirely inappropriate to renege on these promises by further extending the retirement age, cutting promised Medicare benefits or by enacting an across the board increase to the OASI payroll tax as a way to subsidize current spending or tax cuts.

The cash flow problem currently experienced by the trust fund is not the trust fund's problem, but a problem for the Treasury to address, either through further borrowing – which will require a quick resolution to the debt limit extension and preferable through higher taxes for those who received the lion's share of the benefit's from the tax cuts of 1981, 1986, 2001, 2003 and 2010.

The cost of delaying actions to address Social Security's fiscal challenges for workers and beneficiaries.

Actions should be taken as soon as possible, especially when they must be phased in, as it is a truism that a little action early will have a larger impact later.

This should not be done, however, as an excuse to use regressive Old Age and Survivors Insurance payroll taxes to subsidize continued tax cuts on the top 20% of wage earners who pay the majority of income taxes. Retirement on Social Security for those at the lowest levels is still inadequate. Any change to the program should, in time, allow a more comfortable standard of living in retirement.

The ultimate cause of the trust fund's long term difficulties is not financial but demographic. Thus, the solution must also be demographic – both in terms of population size and income distribution. The largest demographic problem facing Social Security and the health care entitlements, Medicare and Medicaid, is the aging of the population. In the long term, the only solution for that aging is to provide a decent income for every family through more generous tax benefits.

The free market will not provide this support without such assistance, preferring instead to hire employees as cheaply as possible. Only an explicit subsidy for family size overcomes this market failure, leading to a reverse of the aging crisis.

The recommendations for raising net income are within the context of comprehensive tax reform, where the first 25-28 percent of personal income tax rates, the corporate income tax, unemployment insurance taxes, the Hospital Insurance payroll tax, the Disability Insurance payroll tax and the portion of the Survivors Insurance payroll tax funding survivors under the age of 60 have been subsumed by a Value Added Tax (VAT) and a Net Business Receipts Tax (where the net includes all value added, including wages and salaries).

Net income would be adjusted upward by the amount of the VAT percentage and an increased child tax credit of $500 to $1000 per child per month. This credit would replace the earned income tax credit, the exemption for children, the current child tax credit, the mortgage interest deduction and the property tax deduction. This will lead employers to decrease base wages generally so that the average family with children and at an average income level would see no change in wage, while wages would go up for lower income families with more children and down for high income earners without children.

Gross income would be adjusted by the amount of tax withholding transferred from the employee to the employer, after first adjusting net income to reflect the amount of tax benefits lost due to the end of the home mortgage and property tax deductions.

This shift in tax benefits is entirely paid for and it would not decrease the support provided in the tax code to the housing sector – although it would change the mix of support provided because the need for larger housing is the largest expense faced by growing families. Indeed, this reform will likely increase support for the housing sector, as there is some doubt in the community of tax analysts as to whether the home mortgage deduction impacted the purchase of housing, including second homes, by wealthier taxpayers.

Within twenty years, a larger number of children born translates into more workers, who in another decade will attain levels of productivity large enough to reverse the demographic time bomb faced by Social Security in the long term.

Such an approach is superior to proposals to enact personal savings accounts as an addition to Social Security, as such accounts implicitly rely on profits from overseas labor to fund the dividends required to fill the hole caused by the aging crisis. This approach cannot succeed, however, as newly industrialized workers always develop into consumers who demand more income, leaving less for dividends to finance American retirements. The answer must come from solving the demographic problem at home, rather than relying on development abroad.

This proposal will also reduce the need for poor families to resort to abortion services in the event of an unplanned pregnancy. Indeed, if state governments were to follow suit in increasing child tax benefits as part of coordinated tax reform, most family planning activities would be to increase, rather than prevent, pregnancy. It is my hope that this fact is not lost on the Pro-Life Community, who should score support for this plan as an essential vote in maintaining a perfect pro-life voter rating.

Obviously, this proposal would remove both the mortgage interest deduction and the property tax deduction from the mix of proposals for decreasing tax rates while reducing the deficit. This effectively ends the notion that deficit finance can be attained in the short and medium term through tax reforms where the base is broadened and rates are reduced. The only alternatives left are a generalized tax increase (which is probably necessary to finance future health care needs) and allowing tax rates for high income individuals to return to the levels already programmed in the law as of January 1, 2013. In this regard, gridlock is the friend of deficit reduction. Should the President show a willingness to let all rates rise to these levels, there is literally no way to force him to accept anything other than higher rates for the wealthy.

This is not to say that there is no room for reform in the Social Security program. Indeed, comprehensive tax reform at the very least requires calculating a new tax rate for the Old Age and Survivors Insurance program. My projection is that a 6.5% rate on net income for employees and employers (or 13% total) will collect about the same revenue as currently collected for these purposes, excluding sums paid through the proposed enhanced child tax credit. This calculation is, of course, subject to revision.

While these taxes could be merged into the net business income/revenue tax, VAT or the Fair Tax as others suggest, doing so makes it more complicated to enact personal retirement accounts. My proposal for such accounts differs from the plan offered in by either the Cato Institute or the Bush Commission (aka the President's Commission to Save Social Security).

As I wrote in the January 2003 issue of Labor and Corporate Governance, I would equalize the employer contribution based on average income rather than personal income. I would also increase or eliminate the cap on contributions. The higher the income cap is raised, the more likely it is that personal retirement accounts are necessary.

A major strength of Social Security is its income redistribution function. I suspect that much of the support for personal accounts is to subvert that function – so any proposal for such accounts must move redistribution to account accumulation by equalizing the employer contribution.

I propose directing personal account investments to employer voting stock, rather than an index funds or any fund managed by outside brokers. There are no Index Fund billionaires (except those who operate them). People become rich by owning and controlling their own companies. Additionally, keeping funds in-house is the cheapest option administratively. I suspect it is even cheaper than the Social Security system – which operates at a much lower administrative cost than any defined contribution plan in existence.

Safety is, of course, a concern with personal accounts. Rather than diversifying through investment, however, I propose diversifying through insurance. A portion of the employer stock purchased would be traded to an insurance fund holding shares from all such employers. Additionally, any personal retirement accounts shifted from employee payroll taxes or from payroll taxes from non-corporate employers would go to this fund.

The insurance fund will save as a safeguard against bad management. If a third of shares were held by the insurance fund than dissident employees holding 25.1% of the employee-held shares (16.7% of the total) could combine with the insurance fund held shares to fire management if the insurance fund agreed there was cause to do so. Such a fund would make sure no one loses money should their employer fail and would serve as a sword of Damocles' to keep management in line. This is in contrast to the Cato/ PCSSS approach, which would continue the trend of management accountable to no one. The other part of my proposal that does so is representative voting by occupation on corporate boards, with either professional or union personnel providing such representation.

The suggestions made here are much less complicated than the current mix of proposals to change bend points and make OASI more of a needs based program. If the personal account provisions are adopted, there is no need to address the question of the retirement age. Workers will retire when their dividend income is adequate to meet their retirement income needs, with or even without a separate Social Security program.

No other proposal for personal retirement accounts is appropriate. Personal accounts should not be used to develop a new income stream for investment advisors and stock traders. It should certainly not result in more “trust fund socialism” with management that is accountable to no cause but short term gain. Such management often ignores the long-term interests of American workers and leaves CEOs both over-paid and unaccountable to anyone but themselves.

Progressives should not run away from proposals to enact personal accounts. If the proposals above are used as conditions for enactment, I suspect that they won’t have to. The investment sector will run away from them instead and will mobilize their constituency against them. Let us hope that by then workers become invested in the possibilities of reform.

All of the changes proposed here work more effectively if started sooner. The sooner that the income cap on contributions is increased or eliminated, the higher the stock accumulation for individuals at the higher end of the age cohort to be covered by these changes – although conceivably a firm could be allowed to opt out of FICA taxes altogether provided they made all former workers and retirees whole with the equity they would have otherwise received if they had started their careers under a reformed system. I suspect, though, that most will continue to pay contributions, with a slower phase in – especially if a slower phase in leaves current management in place.

One new wrinkle is that I would also put a floor in the employer contribution to OASI, ending the need for an EITC – the loss would be more than up by gains from an equalized employer contribution – as well as lowering the ceiling on benefits. Since there will be no cap on the employer contribution, we can put in a lower cap for the employee contribution so that benefit calculations can be lower for wealthier beneficiaries, again reducing the need for bend points.

Thank you for the opportunity to address the committee. We are, of course, available for direct testimony or to answer questions by members and staff.