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President's Commission to Strengthen Social Security
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Thank you Co-Chairman Moynihan, Co-Chairman Parsons, and members of the President's Commission for the opportunity to speak today about the impact of Social Security privatization on young adults. My name is Hans Riemer, and I am the founder and chairman of the 2030 Center, a public policy organization for young adults, based in Washington, DC. I am also a senior policy analyst at the Institute for America's Future.

Since our founding in 1997, the 2030 Center has been a strong advocate for young people who want to see Social Security strengthened, not dismantled, for future generations. I appreciate that the Commission has chosen to focus so directly today on the impact that Social Security reform will have on younger generations. It is altogether fitting that this Commission should do so; no group of Americans has more at stake in this debate than today's young workers.

I would like to use my time today to raise a flag of caution about what may emerge from this Commission's deliberations. In saying this, I am not referring generally to the fact that the Commission is going to propose a plan to privatize Social Security. While I do not share the opinion that privatization would improve Social Security for younger generations, I respect the fact that the President has committed himself to a course of action on the issue, and that the Commission will pursue that objective.

I oppose privatizing Social Security on general principle. I believe that the level of guaranteed protection that Social Security provides today is about right. Americans need a guaranteed safety net that protects individuals and families from ill fortune, and the country needs a guaranteed safety net that protects everyone from the shocks of severe economic dislocation.

My purpose today is to discuss why the mandate this Commission has been given by the President is *uniquely* problematic from the perspective of how it will impact younger generations. There are many ways to privatize Social Security, and I am concerned that the course this Commission has been mandated to follow will necessarily be among the worst possible for today's younger generations.

According to the executive order establishing this Commission, its final recommendations must adhere to these guidelines:

1. Modernization must not change Social Security benefits for retirees or near-retirees
2. The entire Social Security surplus must be dedicated to Social Security only
3. Social Security payroll taxes must not be increased
4. Government must not invest Social Security funds in the stock market
5. Modernization must preserve Social Security's disability and survivors components
6. Modernization must include individually controlled, voluntary personal retirement accounts, which will augment the Social Security safety net.

The first and the fifth principle are the keys to understanding the unique – and highly detrimental – impact the Commission's plan will have on young adults.

Under privatization, contributions that would normally go to pay Social Security benefits are instead directed towards private investments. As a result, the system is no longer able to meet its promised obligations, and its guaranteed benefits must be scaled back. The private investment accounts are intended to make up for the difference in lost Social Security retirement benefits.

The reduction in Social Security benefits that is caused by privatization is significant. Private accounts totaling two percentage points of FICA – an amount that is significantly less than both the president and many members of this Commission have discussed as a possibility – would drain approximately one trillion dollars out of Social Security over only the next ten years, and many trillions more after that. Under this scenario, an immediate and permanent benefit cut of about twenty-five percent would be necessary in order to maintain solvency over 75 years.

However, the Commission's principles specify that not everyone will share in this burden. Instead, according to the fifth principle, Social Security's survivors and disability components must be preserved. Disability and survivors benefits constitute about one-third of Social Security outlays – a substantial portion of the program that has been walled off from the downside costs of privatization. Therefore, all necessary benefit cuts must be borne by the retirement portion of the program.

More significantly, the first principle states that all individuals who are either retired or near retirement age must be held harmless from the necessary reductions in Social Security benefits. That is, all necessary benefit cuts must be borne by the retirement benefits of workers who are currently under the age of 55. This mandate means that the burden of pain will not be spread equally among the generations, but instead back-loaded onto today's young adults.

A recent study by the Century Foundation presents some basic calculations about the impact on young people of an approach to privatization constrained in an identical manner as this Commission. The results are striking: For a worker who is age 29 today (as I am), the cuts to Social Security's guaranteed benefits would total *54 percent*.

(The study was conducted by economists Henry Aaron, Alan Blinder, Alicia Munnell, and Peter Orszag, and published by the Century Fund. Note that it used assumptions about stock market returns, administrative costs, and the ability of such an approach to protect the disability and survivors components, that are generous towards privatization).

Of course, the individual investment account totaling 2% of wages is designed to offset the cuts. But the accounts simply can't bear the load. Even assuming an optimistic scenario for investment returns and administrative costs, today's 29-year-old worker with average earnings will still wind up with 20 percent less income than Social Security would have provided, once the account and the Social Security portion are added together.

The table below illustrates this scenario for a 29 year old worker retiring in 2037 who is a low earner ($14,258 in 2000) and an average earner ($31,685):

Retirement Benefits for 29-year-old Worker under Commission Principles

	Low Earner	Average Earner
Current-law Social Security benefits	$9,618	$15,877
Required cut in Social Security benefits	- $5,157	- $8,514
Value of average individual account	$2,385	$5,300
Total retirement benefit (Social Security benefits + individual account)	$6,846	$12,664
Percentage change relative to current-law benefits	- 29%	- 20%

Source: Century Fund Issue Brief No. 11

The loss of 29 and 20 percent of retirement income for low and average earners respectively would be a disastrous outcome, no doubt. But the situation is in fact considerably worse: *because the result is an average, nearly half will do poorer.*

The issue of average outcomes is particularly important because the promise of guaranteed protection against poverty cannot be "averaged out" if some people feast on the rewards of a rich stock account while others cannot afford to eat. Social Security is supposed to be there for everyone, regardless of whether they have good luck or know how to manage investments.

With the clear framework established for this Commission, I fear that we are headed down a road that forces young Americans into a no-win situation. I do not see how, under the Commission's principles, young people will be better off at all.

For years, the campaign to privatize Social Security has focused its message on the supposed benefits for today's younger generations. Today, this message is echoing in the halls of Congress and the White House, throughout the media, and in the think tanks.

It would indeed be tragic if, at the end of the day, a policy was adopted that exploited young people's lack of political power to exact an economic sacrifice of great proportion.

While I do not expect this Commission to abandon its directive to pursue a privatization plan, I hope that the Commission will directly confront the constraints that have been established and seek an outcome that treats young people more fairly.

And, for the record, I will also point out that there are better options to strengthen Social Security for future generations – options that involve both shared sacrifice and reward. Redirecting general revenues that are projected to go to the recently enacted tax cut to Social Security would go a long way towards closing Social Security's projected shortfall. Raising the payroll tax cap so that high earners pay Social Security taxes on more or all of their income, like the rest of us, would also help. As would using private fund managers to diversify the Social Security Trust Fund's investment strategy.

In the end, strengthening Social Security for future generations is not a matter of affordability, but rather a matter of priorities. This country needs a strong safety net, and there is only one entity that can provide a real guarantee of Social Security: the U.S. government. We should sustain this valuable program, rather than start down the path of dismantling it.

On behalf of the 2030 Center, I thank the President's Commission for inviting me to present our views today.