

PRESIDENT'S COMMISSION TO STRENGTHEN SOCIAL SECURITY SUMMARY OF MEETING

June 11, 2001

The first meeting of The President's Commission to Strengthen Social Security was called to order at 10:02 A.M. on June 11, 2001, at the Willard Inter-Continental Hotel, Washington, DC, by Senator Daniel Patrick Moynihan, co-chair of the Commission. Senator Moynihan welcomed Commission members and announced that Richard Parsons, co-chair of the Commission, would chair the meeting.

Meeting Attendees:

Commission Members:

Senator Daniel Patrick Moynihan (Co-Chair)	Olivia Mitchell
Richard Parsons (Co-Chair)	Gerald Parsky
Samuel Beard	Timothy Penny
John Cogan	Robert Pozen
William Frenzel	Mario Rodriguez
Estelle James	Thomas Saving
Robert Johnson	Fidel Vargas
Gwendolyn King	

Commission Staff and Others:

Charles Blahous (Commission Executive Director/National Economic Council)
Michael Anzick (Commission staff/Designated Federal Official)
Stuart Besser (Social Security Administration)
Andrew Biggs (Commission staff)
Jeffrey Brown (Council of Economic Advisers)
Randy Clerihue (Commission staff)
Ann Combs (U.S. Department of Labor)
Bonnie Doyle (Social Security Administration)
James Duggan (U.S. Department of the Treasury)
Stephen Goss (Social Security Administration)
Kathy McCullough (Social Security Administration)
Diana Meredith (Office of Management and Budget)
Donald Oellerich (U.S. Department of Health and Human Services)
Andrew Sacher (National Economic Council)
Kent Smetters (U.S. Department of the Treasury)
Alice Wade (Social Security Administration)

CLOSED SESSION 10:00 A.M. – 10:45 A.M

Michael Anzick, the Commission’s Designated Federal Official, briefed Commission members on the requirements of the Federal Advisory Committee Act. Next, Randy Gaines, from the Social Security Administration’s Office of General Counsel, gave a briefing on ethics and public service and administered the swearing in of Commission members.

OPEN MEETING

Richard Parsons called the open meeting to order at 10:55 a.m. and asked each Commission member to make a brief statement about the future of Social Security and the work of the Commission.

Public Statements by Commissioners

Richard Parsons—Richard Parsons read a letter from President George W. Bush addressing the Commission’s work.

Daniel Patrick Moynihan—Senator Moynihan stated the importance of focusing on the year 2016, when, according to the Public Trustees of the Social Security Trust Funds and the Social Security Administration’s Office of the Actuary, trust fund expenditures are projected to begin exceeding income. He also noted that public confidence in the program was strengthened by making the Social Security Administration an independent agency and sending each covered worker age 25 and older an annual Social Security Statement detailing earnings and expected future benefits. These changes have begun to change the degree to which the public recognizes that Social Security is a real system with real problems that can and ought to be fixed. He reinforced the President’s call that we could become a nation of “owners and savers.”

Olivia Mitchell—Olivia Mitchell noted that in 2016 income to the Social Security Trust Funds will be inadequate to fully cover benefit payments. To keep current benefit promises, workers will face a greater tax burden or beneficiaries will face benefit cuts. She outlined two tasks of the Commission: 1) Educating the public about the system’s financial challenges and how various reform scenarios might work; and 2) Formulating a reform plan that will restore financial and fiscal soundness to Social Security, which includes adding individually-controlled personal retirement accounts. In evaluating reform options with individual accounts, she recommended that the Commission assess how risk and return are evaluated and examine administrative costs and other feasibility issues. She also noted that having assets owned by system participants should help preserve the funded aspect of any program that emerges.

Bill Frenzel—Bill Frenzel stated that a guaranteed way to harm the Social Security system is to do nothing to reform it. He also stated that we must reform the system sooner rather than later so changes to the system can be phased in over time, easing the impact on workers and beneficiaries.

Robert Johnson—Robert Johnson described Social Security’s long-term financing problem as a business problem: having more costs than revenue. He wants to improve the program for all

Americans, but will focus on giving African Americans broader access to wealth accumulation and enhancing program equity—particularly among African Americans, who, he believes, receive less from the system because of higher mortality rates, making it difficult for their heirs and families to benefit from their contributions.

Samuel Beard—Samuel Beard called Social Security the most effective and best government program ever created—a program that it is essential to save. He suggested three guiding principles for his work on the Commission: 1) Ensuring the continuation of some guaranteed benefit level; 2) Preserving disability and survivor components of the system; and 3) Addressing the program’s long-term financing difficulties without delay. He stressed the disparity in the United States between those with access to financial assets and those without and his support for helping Americans accumulate wealth.

Fidel Vargas—Fidel Vargas reported that Social Security is a vital part of Americans’ economic security, particularly for working class Americans. He wants to address the concerns held by younger Americans about the program’s long-term viability and to reform the system sooner rather than later.

Thomas Saving—Thomas Saving said we need to consider the effect of the growing Social Security financing burden on the total Federal budget. He predicted that, if we fail to solve Social Security’s financial problems today, and if Federal government expenses stay at 20 percent of gross domestic product (GDP), then Social Security, Medicare, and Medicaid will account for 100 percent of the Federal budget by 2070.

Mario Rodriguez—Mario Rodriguez commended President Bush for establishing the Commission and said he wants Social Security to be sustainable in the long-term. He also stressed that the work of the Commission will be especially important for the Hispanic community, which currently has difficulty saving and accumulating wealth.

Estelle James—Estelle James stated that Social Security is financially unbalanced, and that this problem provides us with an opportunity to improve the system, based on what we have learned over the past 65 years. She detailed criteria for reforming the program: 1) Make the program sustainable beyond the 75-year long-term actuarial period; 2) Examine the effect of the system on parts of the broader economy, such as national saving, capital accumulation, labor supply, and the work effort of younger workers; 3) Protect the bottom half of the income distribution and ensure that the social safety net stays in place; and 4) Avoid the excess of both political risk—the fact that the current system is risky because the financing structure is unsustainable—and financial market risk. She recommends developing a reform that limits both of these types of risk through diversification.

Gerald Parsky—Gerald Parsky stated his goals for the Commission: 1) Alert the public and policy makers that now is the time to enact real reform; 2) Focus on reforming the system with structural changes instead of just attempting to improve long-term solvency—an approach that only sustains the program in the short term; and 3) Educate the public that debt markets and equity markets are not to be feared.

Timothy Penny—Timothy Penny stated that the three necessary elements for addressing difficult political decisions are in place: 1) A growing sense of urgency among the public that change needs to take place—particularly true among younger workers; 2) Strong presidential leadership; and 3) Bipartisanship. He recommended to President Bush that this Commission work to ensure both long-term sustainability and public confidence in the program.

John Cogan—John Cogan called Social Security the most important social invention in modern times. He stressed that the program faces serious long-term financial problems beginning in the next decade and that the Commission should develop a reform plan that both Congress and the American people find acceptable. He said that adding personal accounts to the program would allow individuals to build real wealth and financial security.

Gwendolyn King—Gwendolyn King noted the importance of the Social Security Statement, which is sent to each covered worker age 25 and older, stating that receipt of this statement provides each covered worker a sense of ownership. She suggested to other Commission members that: 1) Their report should be written in plain language that the general public can easily read and understand; 2) Consideration should be given to develop a plan for educating the public about investing in individual accounts, especially for those who will be investing for the first time; 3) Any reform plan protects vulnerable beneficiaries, such as women and minorities; and 4) Commission members should work to clearly understand any recommendations included in reports to be fully confident in supporting them.

Robert Pozen—Robert Pozen remarked that Social Security is one of the most successful government programs in U.S. history, and we need to ensure it is sustainable over the long term. He outlined his goals for the Commission: 1) Educate the public about Social Security's financial problems and possible solutions; 2) Retain same level of benefits for current retirees and soon-to-be retirees; 3) Recognize that making small changes to the program now can, over 20 or 30 years, help the next generation; 4) Recognize that there are no easy solutions; and 5) Consider the practicality and workability of recommendations.

ISSUES DISCUSSED

Current Financing Structure

Chuck Blahous, executive director of the Commission, described the current state of the Social Security program. He and members of the Commission discussed Social Security's current financing structure, in which current workers finance the benefits for current retirees, and how the decreasing ratio of workers to retirees will place greater economic burdens on workers in the future, making this system unsustainable in the long term. Starting in the year 2016, Social Security system revenues will be insufficient to pay for Social Security benefits. Beginning in that year, the Federal government would have to raise additional revenue, reduce spending on Social Security benefits, cut other Federal government spending, or increase public debt.

Chuck Blahous clarified the distinction between 2016 and 2038. The cash flow shortfalls begin in the year 2016, and this is the year in which the government must find the resources necessary

to sustain the system. The existence of a balance in the Social Security Trust Funds after this date means, in essence, the Federal government is legally bound to redeem Trust Fund bonds between 2016 and 2038, but it is not required to do so after 2038. Commission members discussed the Social Security Administration's (SSA) borrowing authority in 2038 and agreed that SSA does not have borrowing authority to write benefit checks without dedicated financing. In practice, monthly benefits would not be cut in 2038. Instead, the payment of benefit checks would be delayed—which would be equivalent to a 27 percent reduction in benefits. From that point forward, if benefits were to be funded from projected revenues, those benefit reductions would gradually increase from 27 percent in 2038 and would gradually become 33 percent in 2075.

Interim Report

The President's executive order establishing the Commission requires the Commission to submit an Interim Report. The major purpose of the report will be to explain in plain language the fundamental financial problems facing the Social Security program during and after the retirement of the baby boom generation. Commissioners agreed that it will be important for the report's findings to be understandable by the general public. One method Commission staff will use to communicate how program changes would affect average Americans is to calculate benefit cuts or tax increases in terms of what they would mean to the average Social Security beneficiary.

Initially, the Interim Report was to include baselines by which various reform scenarios in the Final Report could be compared. After Chuck Blahous described four baselines included in briefing materials, Commission members agreed to exclude baselines from the Interim Report, saying that including them might make report findings unclear and open to misinterpretation.

Outreach to the Public

After release of the Interim Report, Commission members stated their desire to hold town hall meetings to receive face-to-face input from the public. These town hall meetings would be held by subgroups of Commission members in various locations around the country, tentatively in September. Commission members agreed that an efficient and helpful method of gaining input is to pose specific questions and have the public and interest groups answer them. In addition to town hall meetings, Commission members expressed an interest in receiving ongoing input from the public on its work, noting they could be contacted through the Commission's office and web page: www.csss.gov.

Staff Assignments

- Draft Interim Report for Commission to comment on at next meeting.
- Develop an education strategy, promoting findings from the Interim Report.
- Prepare summaries of existing Congressional proposals to reform Social, including individual account options.

- Distribute findings from the 1994-1996 Advisory Council on Social Security.

Next Meeting

The Commission agreed to meet again in Washington, DC on July 24. In keeping with requirements of the Federal Advisory Committee Act, the location, times, and agenda for the meeting will be announced in the Federal Register.

Adjournment

Richard Parsons, Commission co-chair, adjourned the meeting at 3:04.

I hereby certify the accuracy of these minutes.

Senator Daniel Patrick Moynihan
Co-Chair

Richard Parsons
Co-Chair

Michael Anzick
Designated Federal Official