

Statement of Senator John Breaux, Ranking Member

For generations, Social Security has provided a pillar of support for many millions of Americans. It has come to represent how a social contract between citizens and their government can and should work.

But despite its great success over the last six decades, there are also profound concerns about its future. Many questions about the "security" of Social Security have come about due to a growing awareness of demographic trends in our society. As "baby-boomers" -- those 77 million Americans born between 1946 and 1964 -- begin to retire, there will be fewer workers contributing into the system in comparison to those retiring and drawing Social Security benefits. In 1950, there were 16 workers paying for every one Social Security beneficiary. In 2030, there will be only two workers paying for every beneficiary.

In 1950, when people reached 65, they were expected to live only about 13 more years. In 2030, they will be expected to live another 19 years. It is good that people are living longer. But we must begin dealing realistically with this demographic shift in order to keep the "security" in the program.

I am currently working in conjunction with the NCRP on a Social Security modernization plan to take the program into the new millennium. We hope to have a specific proposal by late May. Obviously, this is not 1935, the year Social Security was signed into law. So, it isn't reasonable to think that as 2000 rapidly approaches, we can operate the program the same way we did then.

Any attempt to restore Social Security's solvency must begin with this premise: the safety net that it provides to millions of Americans must be maintained. As we struggle to pay for the demographic shifts in this country, however, we see that Social Security is becoming a less attractive deal for many Americans. Workers who retired in 1980 at age 65 took 2.8 years to recover their investment into Social Security. Retirees in 2025 will take 26 years. This has resulted in decreased confidence in the program.

As we look to Social Security reform, we must begin to think about how to increase its value for average Americans. As now structured, we invest the trust fund in government securities, where they yield approximately a 2.7 rate of return. With the economy we have today, such a low return simply does not make sense. Over the span of the 20th century, the stock market has yielded an average rate of return of 7 percent and over the last 15 years, the rate of return has been 15 percent. This is *not* to say that everyone should take all of their Social Security money and invest it freely in the stock market. This is only to say it is time to explore giving individuals more choice, more control, and an opportunity for a better rate of return. But this is only possible if it is in a structured and safe way.

For example, individuals could be given the opportunity to invest a small portion of their current payroll tax of 6.2 percent. The model of investment could be based on the Thrift Savings Plan (TSP) offered to federal employees. All federal employees have the option of putting funds into a high-risk account (stocks), a moderate-risk account (bonds), or a low-risk account (government securities). The rates of return for the three funds respectively from 1988-1996, was 16 percent, 8 percent and 7 percent. Federal employees can place all their TSP funds into a single account or divide it among all three, based on their individual needs and long-term financial goals.

Again, we are only beginning what I hope will be a national debate on this critical issue. But the debate must go well beyond just getting the books to balance -- it must involve the larger issue of what we want our nation's public retirement system to look like in the 21st Century.

I applaud the President and Congress for putting the issue of Social Security modernization at the top of the national agenda this year. And I thank our chairman, Senator Grassley, for calling this hearing and

all our witnesses for being here. The time to take action is now, while the economy is stronger than it's ever been in history and before there is an immediate or impending crisis. I hope Americans of all generations will join in the debate over Social Security and help us reach the consensus we will need to make fundamental changes.

While there is no immediate crisis threatening Social Security, acting sooner rather than later is vital if we want to avoid disaster 31 years down the road. And what a wonderful example our actions today would be for demonstrating to the American people that political leaders can indeed be bold, strategic, and far-reaching in their approach to governing and in doing what is right for the country.