

Testimony before the United States Senate Special
Committee on Aging
Presented by Fidel A. Vargas
February 10, 1998

I am honored to be here today to share my perspective on Social Security as you attempt to define the goals of the Social Security system going forward.

I have been invited to share my thoughts as a younger contributor to Social Security and as a member of a minority population.

Before I begin, however, I would like to state that as a former Mayor and former member of the Advisory Council on Social Security, I am acutely aware of politically charged nature of this issue. I personally struggled to balance the concerns of competing interest groups throughout my tenure on the Advisory Council. I know that this is a difficult issue and I commend you for your efforts to address it responsibly. My true hope is that partisan politics can be put aside in order to build a strengthened Social Security system.

No matter where you stand on the issue of reform, it is evident that action is required in the short term in order to address real long-term problems. There were no voices on the Advisory Council supporting the status quo. Our only differences were found in the specifics of each proposal and the philosophical foundations on which those proposals are based.

Since the purpose of this hearing is to identify what the core goals of Social Security should be, I would like to focus my comments on what I, as a young American, believe should be the goals for Social Security. In addition to being "young", my thoughts on this issue are also shaped by my status as a member of a minority population, the Hispanic community, and as a father of three young boys.

As I look back at my experiences on the Advisory Council on Social Security, I am reminded of a practice that I would follow in preparation of our meetings.

Prior to flying to Washington, I would visit our local senior citizen center to speak with my constituents about social security. They each had their own opinions about what should be done regarding the future of the system but few of them, although more than I expected, offered to sacrifice their present benefits for future generations. They contributed to the system when they worked and they expected, and rightly so, everything they put in to the system and then some, back.

Next, I would speak with some of my peers. As I listened to many twenty-something's, what I heard was what most polls were telling us on the advisory council. My friends "said" they were not counting on Social Security to be there for them when they retired. As you may have heard by now, more young Americans believe in existence of UFO's than in the future of their Social Security benefits.

While expectations remained low, no one seemed to mind that 12.4% of their paycheck was going to fund current retirees. Like me, my peers viewed this as "part of the program." In other words, there was nothing they could do to change the situation so why be upset. Besides, the money was going to our grandparents or our friends' grandparents and helping them live a more comfortable life.

Finally, I would talk to my wife. We would discuss our future and the future of our children. Having been blessed with many great opportunities in life, we believed that our future, both immediate and

long-term, would be secure. Having just completed my first semester at Harvard Business School, I am hopeful that I will be able to secure a good job after graduation so that I will be able to pay back all those federal student loans and plan for our retirement.

In terms of our children, we were not as certain about their future prospects. In fact, we came to realize that their future was directly linked to the decisions that would be made on programs such as Social Security. Ultimately, it will be our children and their children who will be responsible for beating the burden of the choices we make today. Should we move away from a pay as you go system? Should we establish a trigger tax 45 years into the future? The answers to these and other questions will determine my children's future.

Throughout the entire process I tried to balance the interests and concerns of seniors, baby boomers, generation Xer's and my children's generation. This is not an easy task. However, after careful consideration and after placing extra weight on the concerns of my children and future generations, I came to rest on three basic principals or goals that I would urge you to consider as you develop your proposals.

Honoring of current obligations

First retired Americans or those approaching retirement should receive what they have been promised. No proposal presented by the Advisory Council ignored those obligations. In terms of specifics, there was broad agreement on issues relating to taxation of benefits as well as the adjustment of the retirement age.

Maintenance of a safety net or minimum benefit for low wage earners

Second, the Social Security system should provide a basic floor of protection for all full career workers, which is fully cost-of-living adjusted for people in retirement and keeps pace with earnings' growth prior to retirement, in addition, the system should intentionally redistribute benefits toward low-wage workers. This is especially relevant for minority communities. Due to structural issues that are beyond the focus of this discussion, a large percentage of the African-American and Hispanic work force is comprised of low wage worker. Any proposal that would significantly reduce the minimum benefit should be viewed negatively.

Move towards some form advanced funded system

Third, as outlined by the Personal Security Account proponents within the Advisory Council an Social Security, the benefits of a PSA type plan exceed those offered by the current system for a number of reasons. An advanced-funded system would:

- Replace a system of unfunded benefit promises that shifts the cost of benefits for the elderly to workers and future generations with a fully-funded system in which each generation saves for its own retirement.
- Create a direct link between the tax contributions workers make and the benefits to which they are ultimately entitled, eliminating much of the complexity of the current system.
- Replace a system whose solvency is highly sensitive to demographic developments with a system that essentially runs on automatic pilot; personal accounts vary in value with changes in investment choices and performance but remain fully-funded at all time.

- Allow individual workers and families to be directly involved in the investment decisions that will vitally influence their future wealth and income; and
- Give workers real ownership claims over the contributions to and the proceeds of their accounts, thus substantially reducing the political uncertainty surrounding the size and cost of future benefits.

In conclusion, I believe this committee, the Congress, and the President have an opportunity to make fundamental changes that can solve our Social Security problem once and for all. While the political and financial costs are substantial, the cost of delaying action could be even greater still.

Thank you.