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National Committee to Preserve Social Security and Medicare

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Committee on Education and the Workforce
Subcommittee on Health, Employment, Labor, and Pensions

Hearing on " Retirement Security: Challenges Confronting Pension Plan Sponsors, Workers, and Retirees"

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Mr. Chairman and Members of the Committee:

On behalf of over 3 million members and supporters of the National Committee to Preserve Social Security and Medicare, I am honored to testify here today.

Our members come from all walks of life and every political persuasion. About one third identify themselves as Democrats, one third as Republicans, and the remaining third are unaffiliated with a political party. What unites them is their passion for protecting and strengthening Social Security and Medicare – not just for themselves, but for their children and grandchildren.

It is critical that any discussion about Retirement Security include Social Security and Medicare – because these two programs form the lynchpin of most Americans' retirement. About 54 million individuals receive Social Security benefits today, including37 million retirees.

These benefits are modest. The average retiree receives about $14,000 in Social Security benefits each year. Women receive about $12,000. Yet today's retirees are heavily dependent on these benefits. About one-third have no income other than Social Security, and two-thirds rely on Social Security for more than one-half of their retirement income.

Younger generations are likely to be just as dependent on Social Security as their parents and grandparents. Just over one-half of the workforce has access to any kind of retirement plan at work, and only about one-half of these workers choose to participate.

And those individuals who participate in a retirement plan increasingly must do so within the context of a defined contribution plan, such as a 401(k), rather than in a defined benefit pension plan. Unfortunately, defined contribution plans place the burden of investment and risk management on individuals. Even in the best of times, defined contribution plans work only if individuals are able to save substantially, make good investment decisions, retain their savings until needed for retirement, and develop a retirement drawdown plan that assures a continuous stream of income for the remainder of their lives.

The second major pillar of retirement security for today's retirees is Medicare. Prior to the creation of Medicare, millions of retirees had no health insurance, and what insurance existed was very expensive. Private insurance companies shunned older people because they tend to have expensive claims.

Today, little has changed in the private market. Private companies who participate in the Medicare Advantage program are paid about 10% more than it would cost traditional Medicare to cover the same seniors. Without Medicare, health care would be unattainable or unaffordable for millions of seniors.

Even with Medicare, health care costs represent a significant portion of a retiree's income. About 30% of the average seniors' Social Security benefit is spent on Medicare out-of-pocket costs for Medicare Parts B and D alone. This percentage is expected to grow to almost 50% by 2085.

Social Security and Medicare help keep low-income workers out of poverty in retirement. And they provide critical support for middle-class workers who do not earn enough during their working lives to finance decades living in retirement. This helps explain their enduring popularity. And it explains why Americans are so unwilling to bet their futures on risky schemes to dramatically restructure them.

President George W. Bush discovered this when he proposed allowing workers to divert a portion of their payroll taxes into Social Security private accounts in 2005. Although they knew the Bush plan would not affect them, seniors spoke out to preserve the program for their children. Likewise, seniors all around the country oppose plans to privatize Medicare and convert it into a voucher program.

As you know, under the House budget resolution workers age 54 and younger today would purchase their health insurance from private companies, and be given a voucher – or premium support payment – to cover a portion of their costs.

These two dramatic changes in Medicare will shift trillions of dollars of costs onto future beneficiaries. According to the Congressional Budget Office, the cost of purchasing insurance from private companies will more than double a retiree's out-of-pocket costs in the first year. And the vouchers used to subsidize the premiums will grow more slowly than health inflation, further reducing the value of the federal contribution over time.

According to the Center for Economic and Policy Research, the impact of these two changes will be that a 54-year old will need to save an additional $182,000 during the next decade in order to afford Medicare under the Ryan plan. Young people just entering the workforce will need to save more than $640,000 extra through their working lives to afford the additional costs. And because benefits will no longer be guaranteed, it is unclear what kind of health care coverage this extra money will buy.

Mr. Chairman, the National Committee strongly supports enhancing retirement security for America's workers. But we do not believe that can be accomplished by privatizing Social Security or Medicare, or by cutting benefits.

Thank you.