

SENATOR BOB DOLE  
NATIONAL ACADEMY OF SOCIAL INSURERS  
THURSDAY, JANUARY 25, 1990 -- 6:00 P.M.

INTRODUCTION

YOU HAVE CERTAINLY CHOSEN A PROPITIOUS TIME FOR YOUR MEETING. SOCIAL SECURITY IS BACK IN THE HEADLINES AND IS LIKELY TO STAY THERE FOR SOME TIME. THIS IS, OF COURSE, LARGELY A RESULT OF THE MOYNIHAN GAMBIT ON SOCIAL SECURITY AND TAXES.

NOW, SOME PEOPLE HAVE CALLED SENATOR MOYNIHAN'S PROPOSAL TO CUT SOCIAL SECURITY TAXES A HAND GRENADE, OTHERS HAVE COMPARED IT TO AN ATOMIC BOMB, BUT WHAT I THINK THE DISTINGUISHED SENATOR FROM NEW YORK HAS THROWN US IS AN OPPORTUNITY. FRANKLY, THOSE OF US WHO SERVED ON THE SOCIAL SECURITY COMMISSION NEVER ANTICIPATED THAT THE TRUST FUND RESERVES WOULD GROW SO LARGE, BUT THE ECONOMY HAS GROWN FASTER THAN WE'D EVER DREAMED POSSIBLE. ITS AMAZING, IN 1983 WE HAD TO RESCUE THE SYSTEM. NOW, SOME ARE ACCUSING US OF "OVER-RESCUING" IT.

DON'T EXPECT QUICK ACTION

AT THE OUTSET, LET ME REASSURE YOU OF ONE THING: NO MATTER WHAT YOU HAVE BEEN LED TO BELIEVE BY THE MEDIA, ENACTMENT OF THE MOYNIHAN BILL ISN'T SOMETHING THAT IS GOING TO HAPPEN OVERNIGHT. IT TOOK WEEKS, AND MONTHS, AND PLENTY OF GUTS, TO FIX SOCIAL SECURITY. THERE'S NO WAY WE CAN OVERHAUL IT NOW WITH A QUICK FIX.

WHILE A FEW SENATORS HAVE JUMPED ON THE MOYNIHAN BANDWAGON, THE REAL NEWS IS NOT ONE DEMOCRATIC LEADER ON THE HILL HAS SIGNED ON TO IT. WHILE A TAX CUT IS A SEDUCTIVE IDEA TO ANY RIGHT THINKING AMERICAN, THE LAST THING WE WANT IS TO FIND OURSELVES IN A SITUATION WHERE, AS A RESULT OF PRECIPITOUS ACTION, WE EITHER HAVE TO DRASTICALLY RAISE TAXES OR CUT BENEFITS TO CORRECT THE DAMAGE DONE. IN FACT, THE WAY I SEE IT, PAT MOYNIHAN DELIVERED THE GOOD NEWS, AND SENATOR HOLLINGS DELIVERED THE BAD NEWS -- HE SAID WE NEEDED A MASSIVE TAX HIKE TO PAY FOR THE "GOOD NEWS", AND THE BAD NEWS COULD ALSO MEAN CUTTING BENEFITS.

OUR INVESTMENT IN THE FUTURE

WHATEVER THE CASE, THE DEBATE HAS BEEN BUSTED WIDE OPEN. AS MY FRIEND, PAT MOYNIHAN, NOTED IN HIS ADDRESS TO YOU AT YOUR FIRST CONFERENCE, ONE OF THE BIGGEST PROBLEMS WE FACE IS A LACK OF CONFIDENCE IN THE SYSTEM. WE HAVE TO CONVINCING THE SENIOR CITIZEN THAT THE PROGRAM WILL CONTINUE TO BE THERE FOR THEM AS WELL AS THE YOUNG WORKER WHO WANTS SOME ASSURANCE THAT SOMETHING WILL BE LEFT FOR THEM.

IN HIS COMMENTS TO YOU LAST YEAR, SENATOR MOYNIHAN SUGGESTED THAT THOSE OF US ON THE GREENSPAN COMMISSION WANTED TO "BUILD A RESERVE IN THE TRUST FUNDS THAT PEOPLE COULD SEE AND BELIEVE IN". AND HE ACKNOWLEDGED WE WERE BUILDING SUCH A RESERVE. NOW THE RESERVES HAVE THEMSELVES BECOME THE ISSUE.

NO ONE DENIES THAT AS LONG AS THE REST OF THE BUDGET IS IN DEFICIT, THE SURPLUSES HELP FINANCE THE DEFICIT. IN THAT SENSE, THEY ARE HELPING PAY FOR OTHER NON-SOCIAL SECURITY SPENDING. CERTAINLY THIS WAS NOT THE INTENTION OF THE BIPARTISAN SOCIAL SECURITY RESCUE EFFORT. HOWEVER, THE ANSWER SHOULD NOT BE SIMPLY TO CUT THE TAX, OR CUT BENEFITS, OR RAISE TAXES. THAT ANSWER BRINGS WITH IT A GREAT MANY SERIOUS QUESTIONS -- SOME OF WHICH WERE RAISED IN BOB BALL'S FINE PIECE ON THE WASHINGTON POST EDITORIAL PAGE EARLIER THIS WEEK.

#### PRESENT RESERVES ARE NOT ADEQUATE

BOB MADE THREE POINTS THAT I THINK ARE WELL WORTH REPEATING. FIRST, THAT THE SOCIAL SECURITY RESERVE IS NOT YET AT A SAFE LEVEL FOR A PAY-AS-YOU-GO PLAN. THERE IS SOME DISAGREEMENT OVER WHAT IS THE SAFE RATIO OF RESERVES TO NEXT YEAR'S PAYMENTS. SOME HAVE CALLED FOR A RATIO OF 150%; SENATOR MOYNIHAN THINKS A RATIO OF 100% IS ENOUGH. I DON'T KNOW WHAT THE CORRECT ANSWER IS.

THIS IS THE SAME KIND OF NUMBERS GAME WE FACED IN 1983. THE ADEQUACY OF THE RESERVES DEPEND HEAVILY ON THE BEHAVIOR OF THE ECONOMY AS A WHOLE. ALLS WELL INTO THE NEAR TERM UNDER INTERMEDIATE ASSUMPTIONS BUT UNDER THE SO-CALLED PESSIMISTIC ASSUMPTIONS, OASDI WOULD BE INSOLVENT IN 1998. I NOTE THIS ONLY TO UNDERSCORE WHAT YOU KNOW BETTER THAN I -- ACTUARIAL CALCULATIONS MAYBE A SCIENCE -- BUT IT'S AN IMPERFECT SCIENCE.

I, FOR ONE, DON'T WANT TO FACE THE PROSPECT OF HAVING TO CUT BENEFITS BECAUSE OF A MISCALCULATION.

#### IS THE MOYNIHAN PLAN A STEALTH TAX INCREASE?

SECOND, BOB ASKS "WHAT HAPPENS AFTER A SOCIAL SECURITY TAX CUT?" LET'S FACE IT: THE BOTTOM LINE IS, THE MOYNIHAN PLAN WILL ELIMINATE \$55 BILLION FROM THE FEDERAL BALANCE SHEET. HOW ARE WE GOING TO MAKE THAT UP? IF DEMOCRATS, LIKE SENATOR HOLLINGS, CONTINUE TO ARGUE NEW TAXES ARE THE ANSWER, THEY'RE WELCOME TO IT. THAT'S A LOSER. BOTH HENRY AARON AND CHARLIE SCHULTZE ARGUE, CORRECTLY IN MY VIEW, SIMPLY CUTTING PAYROLL TAXES WOULD ONLY SERVE TO WORSEN THE BUDGET DEFICIT AND REDUCE STILL FURTHER THE NATION'S ALREADY LOW SAVINGS RATE.

SENATOR SASSER ANNOUNCED HIS ANSWER TO THIS ISSUE TODAY BY SUGGESTING THAT WE REDUCE THE PAYROLL TAX BY \$17 BILLION PER YEAR AND IN EXCHANGE ACHIEVE A "REAL DEFICIT REDUCTION" OF \$30 BILLION PER YEAR. FRANKLY, ITS GREAT TO HEAR THE CHAIRMAN OF THE BUDGET COMMITTEE COMMIT HIMSELF TO REAL DEFICIT REFORM. BUT GIVEN THE SIZE OF THE DEFICIT AND OUR GENERAL LACK OF SUCCESS AT REAL

DEFICIT REDUCTION, I'M NOT SURE WE SHOULD GIVE AWAY \$17 BILLION IN SOCIAL SECURITY TAXES EACH YEAR. I DOUBT TOO MANY SENIORS WOULD SLEEP ANY EASIER WITH THAT KIND OF SCHEME GOING ON. I'M ALSO NOT SURE OF THE IMPLICATIONS FOR THE LONG-TERM SOLVENCY OF THE FUND OF SUCH A REDUCTION AT THIS TIME.

#### MEDICARE IS UNDERFUNDED

WHILE THE SOCIAL SECURITY TRUST FUND MAY BE IN GOOD SHAPE, THE MEDICARE TRUST FUND IS SCHEDULED TO GO BROKE AROUND THE YEAR 2002. ANY REFORM PLAN SHOULD TAKE INTO ACCOUNT MEDICARE'S ENDANGERED FUTURE. I'M NOT ARGUING FOR AN INTERFUND TRANSFER OR A RE-ALLOCATION OF THE TAX BUT THOSE POSSIBILITIES WOULD CERTAINLY BE CONSIDERED.

SENATOR MOYNIHAN HAS SUGGESTED THAT THE SO-CALLED "PEACE DIVIDEND" MIGHT MAKE UP THE GAP. WELL, LET ME SUGGEST THAT HE SIT DOWN AND DO THE ARITHMETIC ONE MORE TIME. IF WE START OUT WITH A DEFICIT OF \$100 BILLION FOR 1991, WE ARE GOING TO HAVE TO FIND \$36 BILLION TO MEET THE GRH TARGET OF \$64 BILLION. IF YOU ADD \$55 BILLION TO THAT, YOU ARE LOOKING AT A GRAND TOTAL OF OVER \$90 BILLION. EVEN THE MOST LIBERAL DEFENSE ANALYSTS WILL TELL YOU THERE IS JUST NO WAY WE ARE GOING TO FIND THAT KIND OF MONEY IN THE DEFENSE BUDGET THIS YEAR.

#### ALTERNATIVES TO MOYNIHAN

AS I NOTED EARLIER, IT SEEMS TO ME THAT IN ADDITION TO THE PROBLEM WE FACE REGARDING WHAT TO DO WITH THE SURPLUS, WE ALSO HAVE TO CONVINCING THE AMERICAN PEOPLE THAT THE SOCIAL SECURITY SYSTEM IS SECURE. MAINTAINING ANY KIND OF SUPPORT FOR THE CONTINUATION OF A TRUST FUND SURPLUS WILL BE NEXT TO IMPOSSIBLE IF PEOPLE ARE NOT CONVINCED THAT SOCIAL SECURITY WILL BE THERE WHEN THEY RETIRE.

NO DOUBT, PAT MOYNIHAN HAS STARTED THE DEBATE. BUT THERE WILL BE PLENTY OF OTHER IDEAS COMING ALONG IN BUNCHES. FOR EXAMPLE, THE PRESIDENT'S PLAN, BY SETTING ASIDE THE SURPLUS AND USING IT TO BUY DOWN THE DEBT, WOULD-THEY SAY -- LOWER INTEREST RATES, INCREASE INVESTMENT AND PRODUCTIVITY. IN MY VIEW, A STRONG, GROWING ECONOMY IS THE BEST INSURANCE THE "BABY BOOMERS" HAVE FOR RECEIVING THEIR SOCIAL SECURITY BENEFITS. UNFORTUNATELY, IT'S VERY DIFFICULT TO EXPLAIN TO THE AVERAGE PERSON OR EVEN THE AVERAGE POLITICIAN HOW BUYING BACK THE NATIONAL DEBT "PROTECTS" THEIR INVESTMENT.

I'M NOT REJECTING ANY ONE OPTION UNTIL I'VE HAD A CHANCE TO EXAMINE THEM ALL. BUT THERE IS NO WAY I CAN AGREE TO SIMPLY ADD \$55 BILLION TO THE DEFICIT.

#### OTHER CRITICAL ISSUES

LET ME NOT LEAVE YOU WITH THE IMPRESSION THAT SOCIAL SECURITY IS THE ONLY ISSUE BEFORE US IN WHICH YOU MIGHT HAVE AN INTEREST.

AS I NOTED, MEDICARE IS FACING ITS OWN SERIOUS FINANCIAL PROBLEMS AT A TIME WHEN THE AGING OF THE POPULATION IS PLACING A GREAT MANY ADDITIONAL DEMANDS ON THE PROGRAM -- NOT THE LEAST OF WHICH IS THE NEED FOR A LONG-TERM CARE PROGRAM. THIS SITUATION WILL OF COURSE GET WORSE -- NOT BETTER.

THE BROAD QUESTION OF HOW TO ENCOURAGE MORE INDIVIDUAL SAVINGS AND INVESTMENTS WILL ALSO BE A MAJOR ISSUE. THE PRESIDENT'S BUDGET WILL CONTAIN A FAMILY SAVINGS INITIATIVE WHICH COMBINES CAPITAL GAINS RATE REDUCTIONS WITH A FAMILY SAVINGS ACCOUNT PLAN TO ENCOURAGE LOW AND MODERATE INCOME TAXPAYERS TO MAKE LONG-TERM INVESTMENTS BY EXEMPTING THE EARNINGS ON THESE ACCOUNTS FROM TAX.

#### PENSION FUND INVESTMENTS

IN ADDITION, INCREASING ATTENTION IS BEING PAID TO THE INVESTMENT BEHAVIOR OF LARGE INSTITUTIONS, INCLUDING PENSION FUNDS, GIVEN THEIR DOMINANT AND GROWING MARKET SHARE. SENATOR KASSEBAUM AND I HAVE INTRODUCED LEGISLATION DESIGNED TO DISCOURAGE SPECULATION BY PENSION FUND MONEY MANAGERS. OTHER PROPOSALS MAY INCLUDE SECURITIES TRANSFER TAXES, INVESTMENT RESTRICTIONS ON FUNDS AND LAST YEAR'S HOUSE DEMOCRATIC PROPOSAL FOR JOINT EMPLOYEE TRUSTEESHIP OF PENSION FUNDS.

#### CONCLUSION

IN CONCLUSION, LET ME AGAIN ASK FOR YOUR ASSISTANCE IN OUR REVIEW OF THE MOYNIHAN PROPOSAL AND SOME OF THESE OTHER ISSUES THAT I'VE NOTED. I KNOW THAT AS AN ORGANIZATION YOU ARE NOT IN A POSITION TO TAKE A PARTICULAR STAND, BUT THE WORK OF YOUR STUDY GROUPS COULD BE OF INESTIMABLE VALUE. ULTIMATELY, WE ALL HAVE THE SAME GOAL IN MIND -- PRESERVING THE COMPACT WE'VE MADE WITH OUR SENIOR CITIZENS.

NATIONAL  
ACADEMY  
OF SOCIAL  
INSURANCE

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Alexander B. Trowbridge

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Pamela J. Larson

*Jayce*

*Speak  
5:15-6:25  
6:30  
Recep.  
D.K. to come by  
recep. make  
remarks --  
would love to have  
you at recep.*

*Jan - 25  
Thursday*

November 29, 1989

Senator Robert Dole  
U. S. Senate  
141 SHOB  
Washington, D.C. 20510

Dear Bob:

ATTN: Ms. Betty Meyer

*Wash. Court Hotel*

A couple of years ago, a few of us organized a National Academy of Social Insurance made up of experts in old-age, survivors and disability insurance and now including unemployment insurance and workers' compensation. Next year we plan to expand to include Medicare and other government health insurance programs.

The organization is non-partisan and non-profit and has as its purposes the promotion of research, public education, the development of future leaders in the field, and providing assistance to current experts. The organization will ordinarily not take positions on specific legislation but through the establishment of study panels will respond to broad issues in the area of Social Security and related programs. For example, last year, at the request of the Senate Finance Committee Subcommittee on Social Security and Family Policy, the organization produced a report on "the notch."

The members of the Academy have been selected because they are expert and include, I would guess, just about everyone you have worked with in this field--Bob Myers, Carolyn Weaver, Nancy Altman, Rudy Penner, Michael Boskin, Janice Gregory, Joe Humphries, Steve McConnell, Wendell Primus, Bob Reischauer, Alice Rivlin, John Rother, Dallas Salisbury, Charles Schultze, Bert Seidman, Pete Singleton, Larry Thompson, and, of course, many more. Alicia Munnell, Senior Vice President of the Federal Reserve Bank of Boston is the President of the Academy.

We have a four-person Board of Advisers: John Heinz, Lane Kirkland, Pat Moynihan and Sandy Trowbridge.

This year we are having our annual meeting and conference January 25 and 26 in Washington on the subject "Retirement, Social Security and the Future: How Important Is It for Older Workers to Stay in the Labor Force?" We would very much like to have you as the

*Alicia Munnell  
out going Pres --  
Stan Rose will be  
next Pres --  
Recep. in their  
honor --*

505 Capitol Court, NE  
Washington, DC 20002  
Telephone (202) 547-9592  
Fax (202) 547-9595

*Bob Ball  
5-47-9596  
Pam Larson  
5-47-9592  
Laurie Hexson*

-1-

*approx. 200  
people  
in attendance*

dinner speaker on Thursday, January 25 at the Washington Court, 525 New Jersey Ave. N.W. The dinner is at 6:30 and the evening would be over by 8:30. It is not important to us that your talk connect in any major way with the specific subject of the conference. We know that whatever you have to say will be of great interest to the members and their guests.

Based on last year's conference on the subject of "Social Security and the Budget" we would expect a minimum of 120 people at the dinner.

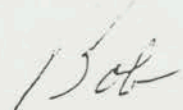
John Heinz opened last year's meeting and Pat Moynihan spoke at the dinner.

I am enclosing this year's conference program, a brochure describing the activities of the Academy, a membership list and the publication that resulted from the conference last year.

We could make the after-dinner session pretty much whatever you preferred--perhaps including reminiscences of the past, thoughts about the future, and as much back and forth with the audience as you would like.

My office is within seven or eight minutes of yours, and I would be happy to come up any time to talk with you about the Academy and the annual conference.

Cordially,

  
Robert M. Ball  
Chair

Enclosures

January 25, 1990

M E M O R A N D U M

TO: SENATOR DOLE  
FROM: SHEILA BURKE  
SUBJECT: REMARKS TO NATIONAL ACADEMY OF SOCIAL INSURANCE

The Academy, which was formed in the late 1980's, has as its stated purpose the promotion of research and public education. They have chosen as their areas of interest; the old age survivors and disability insurance program, unemployment and workers compensation, and in the near future, medicare and other government health insurance programs. The Board of Advisors for the Academy is made up of John Heinz, Lane Kirkland, Daniel Patrick Moynihan, and Alexander B. Trowbridge.

You will be attending their reception this evening, which proceeds their big dinner event. The subject of this two-day conference is "Retirement, Social Security And The Future: How Important Is It For Old Workers To Stay In The Labor Force?"

You have been asked to speak for about 15 minutes on any topic of your choosing. There will be approximately 200 in attendance.

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