

SOCIAL SECURITY

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REMARKS BY THE PRESIDENT
AND THE VICE PRESIDENT
IN SOCIAL SECURITY-MEDICARE ROUNDTABLE

The East Room

10:40 A.M. EST

THE PRESIDENT: Thank you and good morning. The Vice President and I are delighted to welcome you here. We have an unusually large delegation from the United States Congress here today, and I believe I have all their names and I would like to acknowledge Senator Thomas and Representatives Becerra, Bliley, Borski, Cardin, Hill, Nadler, Pickering, Portman, Pomeroy, Markey, Smith, and Tauscher. I think I have got them all. And give them a hand. I think that's amazing that they're here. (Applause.)

I would like to thank Secretary Shalala, Social Security Commissioner Apfel, and Gene Sperling for their work on this meeting today. I'd like to thank our panelists Laura Tyson, Uwe Reinhart, Martha McSteen, Hans Riemer, and Stuart Altman for their presence. And they will be introduced in a few moments.

In my State of the Union address last week, I challenged Congress and the American people to meet the long-term challenges our country faces for the 21st century. Today you all know we are here to talk about perhaps the largest of those, the aging of America.

The number of elderly Americans will double by 2030. Thanks to medical advances, by the middle of the next century, the average American will live to be 82 -- six years longer than today. These extra years of life are a great gift, but they do present a problem for Social Security, for Medicare, for how we will manage the whole nature of our society.

As I have said repeatedly, this is a high-class problem, and the older I get the better it looks. (Laughter.) But it is one, nonetheless, that we have to face. Fortunately, we are in a strong position to act because of our prosperity and our budget surplus.

It is well to remember that the current prosperity of this country was created not by rash actions in Washington, but by facing boldly the challenge forced by the budget deficits -- by getting the deficit down, getting into balance, bringing the interest rates down and bringing the economy back. We also should face the challenge of the aging of America in the same way.

In the State of the Union, I laid out a three-part plan, and asked Congress to consider it -- to invest our surplus in ways that will both strengthen our economy today and in the future, and meet the needs of the aging of America. First, I proposed that we devote 62 percent of the surplus for the next 15 years to saving Social Security, investing a small portion in the private sector, as private, state and local government pensions do. The average position of the retirement fund in the stock market, of Social Security, would be under two percent of the

market for the next 15 years, under three percent for the next 20 years, and always under four for the next 50 years.

Over the course of the last week, I have been gratified to see discussions of this proposal, and obviously differences about the whole market investment issue, but substantial agreement in the idea of dedicating a large portion of the surplus to saving Social Security across partisan lines. And for that I am very grateful. I think we should build on this to extend the life of the Social Security trust fund further. If we do what I suggested it will add 55 -- take us to 2055.

I think we should have a 75-year life for the Social Security trust fund. We should also make some changes to reduce the poverty rate among elderly women who have a poverty rate at twice -- almost twice the general poverty rate among seniors in our country. And I believe we should eliminate the limits on what seniors on Social Security can earn.

To make the changes necessary to go to 75 years on the trust fund and deal with these other challenges, we will simply have to have a bipartisan process. There is no way to avoid it. But I'm confident that the changes, while somewhat difficult, are fully achievable. And if we work together we can make them.

To prepare America for the senior boom will require more than saving Social Security. We also have to deal with the challenge to Medicare and our obligation to make sure that our seniors have access to quality health care. I want to say very clearly that we need to set aside enough of the surplus for Medicare and Social Security before we address new initiatives like tax cuts. That's why the second part of our proposal calls for devoting 15 percent of the surplus for 15 years to the Medicare trust fund. If we do this and nothing else we can secure the trust fund until after the year 2020.

But I want to make something else clear. I believe that -- some have suggested that by dedicating the surplus to Medicare we won't need to make any decisions to reform the program. I disagree with that. Medicare needs revenues to increase its solvency, but it also needs reform to make sure that it is modern and competitive and to gain additional savings to help finance a long overdue prescription drug benefit. So, for me, reforming Medicare and committing the surplus go hand in hand.

I'd also like to say that for me there could be no better use of our surplus in assuring a secure retirement and health care to older Americans. And I believe that it is good not only for older Americans, but for their children and grandchildren as well, and for the larger economy.

Why is that? Well, first of all, if we dedicate this portion of the surplus to Social Security and Medicare over the next 15 years, obviously in most of those years that money will not be needed. In all those years we will, in effect, be buying back the national debt. As we do that, we will bring the percent of our debt -- I mean, our publicly held debt as a percentage of our economy -- down to its lowest point since 1917, since before World War I. What will that do? That will drive interest rates down and it will free private capital up to invest in the United States -- to create jobs, to raise incomes.

So I think that it's very important. If you look around the world today at the troubles these countries are facing, when their budget deficits get out of hand, when their interest rates go through the roof and they can't get any money from anywhere, when we worry constantly about our trading partners, trying to keep them in good shape and help them to not only preserve our economic markets, to preserve partners for

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peace and democracy and freedom -- if we in the United States could actually be doing something to pay down our debt while saving Social Security and Medicare, we would keep these interest rates down. And it would be an enormous hedge against whatever unforeseen future volatility occurs in the global economy.

So this is a strategy that will actually grow the American economy while preparing for the future. Of course, in an even more direct way it's good for the rest of America because, when the baby boomers retire -- as I said in the State of the Union, none of us want our children to be burdened with the costs of our retirement, nor do we want our grandchildren's childhoods to be lessened because our kids are having to pay so much for our retirement or our medical care. So, from my point of view, this is a very good thing for Americans of all ages, without regard to their political party, their income, their section of the country. I think this will benefit the country and help to bring us together and strengthen us over the next several decades.

Let me just say very briefly that the third part of our proposal is to dedicate \$500 billion of the surplus to give tax relief to working families through USA accounts -- Universal Savings Accounts. Under my plan, working Americans would receive a tax credit to contribute to their own savings account, and an additional tax credit to match a portion of their savings -- with the choice theirs about how to invest the funds -- and more help for those who are working harder on lower incomes and, therefore, would have a harder time saving.

This new tax credit would make it easier for Americans to save for their own retirement and long-term care needs. And obviously, this would be further helped by something that is already in our balanced budget, which is the \$1,000 long-term care tax credit.

So these are the things that I think together would not only help us to manage and deal with in a very good way the aging of America, I think it would help us to secure the long-term economic prosperity of the country and help to keep families together across the generations without seeing unbearable strains put on those families, as so many of the baby boomers live longer and inevitably have more medical costs.

So I hope that we will have a good debate in Congress. There will be others with their own ideas; I welcome them, I look forward to it. Today, we're going to focus on the programs that I mentioned at the beginning of my talk. And I'd like the Vice President, who has worked very hard on this with me, now to make a few remarks and to introduce our panelists so we can get on with the morning.

Thank you very much. (Applause.)

THE VICE PRESIDENT: Well, thank you very much, Mr. President, for your commitment to America's seniors and the understanding that you just presented to us, that working to save Social Security and Medicare are more than just fiscal responsibilities and more than just policy priorities -- they are profoundly moral responsibilities. And we're determined that our country will face them directly.

You know, a lot of people thought that we'd never be able to balance the budget in our country, but we did. And for as long as we've heard about that concern we've also heard about the entitlement problem, as people call it. Well, we can deal

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with that, too, and that's what we're here to talk about.

The President acknowledged all the members of the Congress, House and Senate, who are here. And we deeply appreciate your participation in this whole process. Thank you very much -- and the members of the administration team. I wanted to add to that Dr. Janet Yellen, the Chair of the President's Council of Economic Advisors. And I wish we could go ahead and identify all of the leaders of private groups that are here, many of whom have worked for a lifetime on these issues. And we're grateful for your presence here. I want to acknowledge Reverend Jesse Jackson, who is among these leaders present here today, and many others who ought to be singled out.

You know, last year the President set us on a path of progress with four memorable words: Save Social Security first. It was really a turning point in the long debate about what to do with our entitlement programs, because it created a new set of incentives that allowed our country to use this unprecedented budget surplus as leverage -- whatever your political party, whatever your place on the ideological spectrum, automatically there is an incentive to use the surplus or part of the surplus for whatever other purposes you're thinking about, but you can't do it until the country comes together, first of all, to save Social Security first and deal with this generational problem. And it really has changed the dynamic.

And last week in the State of the Union address, the President took that commitment one step further by asking us to save Medicare at the same time, dedicating 15 percent of the surplus as part of a broad-based effort to improve this important program. In the process, the President has transformed what used to be called a third rail into a second chance for America's senior citizens.

This commitment couldn't come at a better time because, as everybody knows, we're now going to finish this century with a surplus of more than \$76 billion; instead of the biggest deficit in history, now the biggest surplus in history -- so it's a good time to move forward with this issue. (Applause.)

And the predictions are that for the next quarter century, whatever the ups and downs of the business cycle, the general trend is going to be for surpluses every year for the next 25 years. So this is the moment for us to meet our responsibilities to the 21st century. And with 75 million baby boomers retiring over the next 15 to 20 years and with that ratio of the folks who are in the work force, compared to the folks who are retired, changing dramatically -- of course, it's more than three people working for each person drawing Social Security now and it's going to decrease to two people working for each person retired. I guess everybody in this room surely has internalized the implications of that mathematical shift -- that's really the real reason why we're here. And that's why our responsibility is so clear.

And we must also focus on the important task of saving and strengthening Medicare, because the coming senior boom will exact a similar toll on Medicare. By 2030, the ratio of workers to Medicare beneficiaries is also expected to decline, in this case by over 40 percent. If we dedicate 60 percent of the surplus to Social Security, and 15 percent of the surplus as part of a broad-based effort to strengthen and improve Medicare, we can meet this challenge in a way that preserves the dignity of our seniors in retirement.

And of course, we've talked about all the numbers involved here, but it's always essential to remember that this, ultimately, is not really about numbers, it's about people. And our generation is the first generation to have more parents than children. And our medical care expenses, as a generation, for our parents, greatly exceeds that for our children. And all of the individuals that we are talking about have faces, and hearts, and connections to their families and their loved ones. And that's really what we're talking about here: how do we help families deal with this time of stress and transition?

It's about Medicare beneficiaries, also, who cannot now afford crucial medications without some help -- and they don't have that help today in many, many cases. And you talk to anybody in our generation helping their parents, or you talk to seniors who have retired who have health care problems -- right away the conversation will turn to, how are we going to get a little bit of help to pay for these medicines that the doctors are prescribing and that are greatly needed. And so the President has addressed that issue, as well.

It's about rural retirees who face more limited choices. And it's about assuring quality health care for women who, after all, make up 60 percent of all Medicare beneficiaries. That's why we're working on this and that's why our country has to solve this.

So Mr. President, we have a great panel here. It's my honor to just briefly introduce all of them and then I'll turn it back to you to start the dialogue here.

First, we're delighted to welcome back Laura Tyson, who was such a prominent part of this administration in its early years as Chairperson of the White House Council of Economic Advisors, and Director of our National Economic Council after that; and now a Dean of the Haas School of Business at Berkeley. She's also, of course, a member of the National Bipartisan Commission on the Future of Medicare.

Second, Uwe Reinhart. Professor Reinhart is, of course, a nationally renowned health care expert from Princeton and has served on several government commissions on health care -- I could say quite a few government commissions on health care -- and is the Commissioner of the Kaiser Commission on Medicaid and the Uninsured. We're honored that you are joining us.

Third, Stuart Altman, who is a professor of National Health Policy at the Heller School for Social Policy at Brandeis University. Dr. Altman has been a nonpartisan advisor to the Congress, and also currently serves on our Medicare commission.

Fourth, Martha McSteen, President of the National Committee to Preserve Social Security and Medicare, the nation's second-largest seniors organization. And as someone who served for 39 years with the Social Security Administration, she knows a thing or two about this program.

And last, but not least only in age, Hans Riemer, who is, at 26, the founder and director of the 2030 Center, a public policy organization for young adults focused on economic issues affecting all Americans. We'd like to thank each of our panel members for being a part of this discussion. And now I'll turn it back to you, Mr. President.

THE PRESIDENT: Well, I would like to begin by asking a question of Laura Tyson, who is, as has been said, on this

bipartisan Medicare Commission. One of the things that I have seen -- and I alluded to this in my remarks -- one of the things that I've seen said in the press in the aftermath of the State of the Union is that by proposing to allocate 15 percent of the surplus for 15 years to the Medicare trust fund, I basically was killing any chance to reform the program because we can keep it just like it is until 2020.

I didn't see it that way, for the reasons I said. First of all, I think there are some substantive changes that ought to be made that would enrich the program, like the prescription drug program; and secondly, because I think the demographics and the costs are going to require reform anyway. I mean, if my numbers are right, I think that the Medicare spending would have to grow at half the rate of economic growth for the next decade just to extend it for another five or six years.

So what I'd like for you to talk about is whether you think it's a good thing to dedicate some of the surplus to Medicare, and whether you think it can be used as an excuse not to make any further changes in the program, or whether it would actually facilitate changes?

I think we need to get this out. And I really don't know what she's going to say, but I've been very concerned about that because when I made this suggestion, I did not intend to say that, whoop-de-do, now we don't have to make any changes in the program. What I was trying to do was to make it possible for us to change the program without pricing it out of the reach of Americans, millions of Americans.

So, Laura, you want to talk about that?

DR. TYSON: Well, frankly, I was very surprised when I heard that reaction to your speech. When I heard the speech, as a member of the bipartisan Commission on Medicare, I was in a hotel room and I started cheering -- because I know the numbers, we've all looked at the numbers on Medicare, and there is a serious financing problem.

It's a very complicated problem; it's not just a demographic problem. It has to do with health care costs, with technology, with the delivery system. And even the most conservative projections about the growth of health care costs, combined with the change in the demographics, show clearly that additional financing for Medicare will be required. And that is even with an ambitious reform program.

I think that we must all face the reality. There are things we need to do to make Medicare a better program, to modernize it, to include adequate benefits, to make it more efficient, to make it more equitable. After you do all of those things -- and we've looked carefully at the range of things you can do -- you still need additional money.

And I feel that a dedication of the surplus, the hard-won surplus of the American people, to this very important program will secure the program. It will allow the commission to come forward with reforms. I don't think we could have come forward with reforms without some agreement on some source of funds to get us through the next several years.

Now, let me also just end by saying Medicare is a problem we're going to have to revisit time and time again because there is a huge amount of uncertainty in terms of how people get care, in terms of shift to prescription drugs, in

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terms of the possibility of having drugs that are individualized to the genetic background of each individual. We're engaged in a huge technological revolution in health. So what I think we're going to try to do in the commission is put in place some reforms that we believe will allow Medicare to remain modern and to be flexible as health care changes. But we can't do any of that without some additional money.

So all I have to say is I cheered the proposal and I'm optimistic now that we can get something done.

THE VICE PRESIDENT: I'd like to ask Dr. Reinhart a question, following up on that one. One of the reasons why after all the deliberations here the President made the decision to dedicate -- recommend dedicating some of the surplus to Medicare, is that we've learned from our studies here that you really cannot extend the life of the trust fund for any substantial period of time without really significant reductions in Medicare.

I know you've spent so many years studying the details of this issue. Tell us why you think resources are part of the answer -- and significant resources are part of the answer, from a health, economic, budgetary perspective.

DR. REINHART: Well, Mr. Vice President, every projection I have seen that seems plausible suggests that even the present benefit package, which people say is inadequate, will be eroded unless additional money is brought into this program. I think any expert will tell you that.

And we now have the opportunity, the unique historic opportunity to provide those monies. And I think it would be sinful not to do so. I support this initiative because it is prudent, it is fair and it is civilized. What do I mean by "prudent"? By prudent is exactly the point that every projection shows we will fall short.

Now, our method in the '80s was to create a huge deficit, then look at each other and look at each other and look at God and say we cannot be our brother's keeper because we have a deficit -- and we thought God bought the argument. (Laughter.) Fair enough. What are we going to do in the '90s or in 2010? We have the surplus and we look at God and we say, we cannot help the elderly who now trade food for medicine -- that was on the front page of the Wall Street Journal.

So, therefore, I consider this civilized. And, finally, I consider it fair, because the baby boom created -- helped work to create the surplus. And the President proposes to put that surplus aside to help finance health care for the baby boom when they are retired. That strikes me as socially fair. So on these three counts I have in the press, as you may have read, wholeheartedly supported this, and I hope the American people will, too.

THE VICE PRESIDENT: Well, as I understand the response, those who disagree with us are uncivilized sinners. (Laughter and applause.) That's it basically.

DR. REINHART: As an economist I can certify -- (laughter) -- that to stay in the club of civilized nations will require a little bit more money for Medicare and I'm willing to sign on that. (Laughter.)

THE PRESIDENT: Let me just say for the record as someone who knows a little about such characterizations, I

wouldn't do that, myself. (Laughter.)

I'd like to ask Stuart Altman a question. Stuart has worked for Republican and for Democratic administrations. He's been through all the various generations of reforms we've had, trying to manage these health programs that we fund. And he's now on the Medicare Commission. I'd like to just ask him to give us some idea from his point of view about -- maybe be a little more specific, and I'm sure the members of Congress here would like this -- what are the type of structural reforms you think we should adopt to improve and modernize Medicare, even as we extend the life of the trust fund?

MR. ALTMAN: Well, I've been a long-term supporter of Medicare, and I have both worked with and have watched how HCFA has tried to grapple with incredibly complex problems. And what we ask of HCFA today -- and I think back to when I was in the administration -- in one day they have to solve 50 problems that used to take us five years to deal with. No private agency is ever asked to deal with the complexity.

And often we make their life so much more difficult by the rules that the Congress puts in their place. They can't operate an efficient system, an efficient health care system, with the rules. So these rules need to be changed. We need to make the Medicare program, HCFA, a much more efficient -- I know they want to do it, and I hope that the Congress will give them the tools to do that. They need to be able to contract with providers in a more efficient way; they need to be able to bill out in a more efficient way. And they need to be able to compete with the private sector.

I believe strongly in competition, and I think that as we move forward -- and I am in support of restructuring the system towards a premium support to allow HCFA to compete. I think when they have these tools they will compete very effectively.

But we also need to change the benefit package. The benefit package that was designed for Medicare was the right benefit package in 1965. There were really two legs of our chair in health care. There was physicians and it was institutional care. And Medicare did a good job in both of them.

We now have a three-legged stool. And that third leg -- prescription drugs and what goes with it -- is becoming every bit as important as the other two. The idea that Medicare does not cover prescription drugs for our seniors on an outpatient basis is a crime. And it's going to become more and more of a crime. As Uwe pointed out, the idea that seniors have to trade food for drugs; the idea that every time a physician writes a prescription, they have to think whether that thing is going to be filled -- and how many have we heard, about our seniors sort of taking one out of three, and one out of four, so that the whole prescription is useless?

Prescription drugs has to be added. It has to be added in a fiscally appropriate way. It needs to be added to the new Medicare. And I share Laura's and Uwe's comments. We could not have supported the premium support system, what we were thinking about, without more revenues, because it would have been a sham. So I, too, have applauded -- I was in another hotel room -- (laughter.)

DR. TYSON: We lead exciting lives. (Laughter.) The life of an ex-government official.

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DR. REINHART: That's our home. So, please -- and I hope -- and I've talked to many members of Congress on both sides, as well as other commissioners -- I view this as such a positive statement. I think we've got a shot now. Thank you very much.

THE PRESIDENT: I don't want to interrupt the flow of the program; I think they're doing so well. But I just want to comment on one thing that Stuart said, because I think we want to drive it home. Many of us have actually met people who choose between food and medicine. Nobody made a deeper impression on me when, in 1992, than this elderly couple I met in the Arel (phonetic) Senior Center in Nashua, New Hampshire, when they described this choice they made on a weekly basis.

But the point I want to make is, when we have partisan fights in Washington, they always get a lot of publicity. And when we do something together, almost nobody notices. But one of the things that I'd like to compliment all the members of Congress here for is that there has been an enormous amount of bipartisan consensus to dramatically increase investment in medical research. And the NIH budget, for example, has grown exponentially as a result of that.

Now, what are we trying to do? Among other things, we're trying to find cures for everything from cancer to arthritis to Parkinson's to you name it. And we're also trying to develop preventions. A lot of those cures and preventions will be in the form of medicine. And a lot of what lengthens people's lives is in the form of medicine. We will be spending more and more and more money every year that we don't have to spend, on hospital care and doctor care, if we don't provide a prescription drug benefit.

And from the point of view of the Congress, I would ask you to think, if we were all serious about all this money we have put into the NIH, then we have to be equally serious about getting the benefits of that investment to all the American people, to the health care system in general and to the economy in general. And I think it's very important because the problem Stuart mentioned is going to accelerate because of the breakthroughs that will occur as a result of the medical research that all of you have funded.

THE VICE PRESIDENT: And with the completion of the human genome within the next two to three years, we're likely to see an even further acceleration of that -- with medications for pain, medications for mental illness, all kinds of suffering can be alleviated.

Martha McSteen, I'd like to ask you about why, in your opinion, as you've said, we need to deal with Social Security and Medicare together and how this challenge is shaped by the fact that there are going to be, as the President mentioned, double the number of seniors in the year 2030, compared to now.

MS. MCSTEEN: Well, Mr. Vice President, it really is a challenge for us to be able to address both of these programs at the same time. But they are really viewed by most people as one program. When I speak to a group of seniors I find that -- about Social Security -- the first question asked is, and what about my Medicare? So Social Security and Medicare are entwined and it is very appropriate, Mr. President, Mr. Vice President, that you're addressing both of those programs at this time.

Social Security does keep millions of people out of

poverty. And Social Security is, indeed, an intergenerational program. It is a program that touches the lives of all Americans. And we must make sure that as we move into the next century that these baby boomers have what they need in order to continue. Their lives are going on for many, many years and we must be thinking about how they are going to be productive in the future, because they will be moving from a marketplace probably early in life, but have to be thinking about, what am I going to do next.

There are many opportunities for volunteering. The marketplace has to make some readiness for you younger people coming back into the market -- maybe not in the same positions, but very much contributing to this society. And in line with that, how can you expect to be able to continue to age 90 and 95 if we do not have good health care. And, of course, this country has the very best health care in the world right at our fingertips.

The research grants that you are providing are tremendous. That will allow us to move into the 21st century with all of you being healthy and productive and have a goal for what you can do to help this country continue to be the greatest country in the world with productivity and enterprise and volunteering and opportunities that are unlimited. We salute you, the National Committee to Preserve Social Security and Medicare, for taking these initiatives.

THE VICE PRESIDENT: Thanks for your leadership.

THE PRESIDENT: I'd like to close this section of the panel with Hans Riemer and ask him sort of what this looks like from his perspective. Let me remind you that the people that are now on Social Security don't have to worry about what we're talking about. The people that are now on Medicare, by and large, don't have to worry about what we're talking about -- although, there's a more immediate time problem there. What we're trying to do for Social Security is to take it out to the time when it would even cover Hans's retirement -- which it ought to as a retirement system that big -- and also to try to at least have a framework which will enable us to not only secure Medicare for 2020, but make some changes that will enable us to manage the program far beyond that.

So I'd like for Hans to talk a little about his work and how he sees this and what advice he has.

MR. RIEMER: Thank you, Mr. President. I think it's important that we should keep in mind the kinds of responsible choices that you've been making over the past six years have really brought about a certain measure of prosperity of an economy, has jobs for everyone -- and that's good for the budget. So I think we now have to use our strong position to think about that future and about tomorrow. So I would look to maintain this kind of fiscal discipline by using our surplus for the Medicare trust fund and for the Social Security trust fund, as you have proposed.

And I would also think that we should begin to take a hard look at the jobs of the future and to think about -- since my generation will be living longer than any other generation that has come before us, we need some budget flexibility, which you will be bringing to us with paying down the debt. But we also need to investigate the pension kinds of problems and health care problems, which I think your USA accounts and some of these Medicare proposals really begin to do.

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So I think a holistic look at fiscal responsibility and jobs will really go a long way towards putting my generation in a much better situation down the road.

THE PRESIDENT: You know, I doubt, given the global economy, at least in the foreseeable -- and I mean probably the next 10 to 20 years -- it will ever be possible for a country that wants to have a great economy to run permanent deficits again. Now, we all know, if a recession happens and you've got fewer taxpayers paying in and more money going out for unemployed people -- and we know there will be good times and bad times -- that's part of human nature -- but the elimination of the structural deficit, I think, is pretty much going to be a requirement for every country that wants to run an advanced economy and have long-term, stable conditions. Because the control of the -- the people that can decide where the money goes and why are going to pretty much demand it. And I think that that's something that we have to be quite careful about and we need to be very prudent in projecting this.

And everybody understands when we say we're going to have surpluses over 25 years that they will vary in size, depending on the condition of the economy. What we mean by that is that we have a structural surplus and that the projections are pretty good. And I think that we have to -- my sense is that that's where Congress is in both parties. There will be people who think that we ought to have a tax cut now instead of a retirement tax cut, so that it ought to be fungible now.

There will be arguments about that. But my sense is, there's almost no one willing to do anything that would in any way run the risk of returning to a structural deficit. And I think that's a big step forward for our country.

Well, I thank all of you. We have here, in addition to members of Congress, we've got a lot of health care providers and people who represent other folks. We've got a little time -- I wonder if any member of Congress who is here would like to ask a question of any member of our panel. This is not prepared. This is all -- (laughter.)

Mr. Nadler? Mr. Pomeroy?

REPRESENTATIVE NADLER: The question I want to ask is, former Secretary Riley and others have pointed out that the projections of the Social Security actuaries, which everybody always quotes to say that the Social Security trust fund is going to go bankrupt in 2032, are based on extraordinarily conservative economic assumptions, not borne out by recent history or recent actuarial experience; and that they, in fact -- a central assumption to those economic projections is an average economic growth rate of 1.5 percent in the next 75 years, which is -- we've had 3.8 percent average for the last 35 years. Why are we -- why is the Social Security Administration using that kind of background assumption?

THE PRESIDENT: Ken, you want to answer that?
(Laughter.) He just greedily wants all the money he can get, that's all.

MR. APFEL: We think that the OMB assumptions are very prudent assumptions for the future. They're based on a lowering of the number of people joining the work force. We're going to have a very significant shift in the future. That's going to mean a lowering of overall economic growth, because we're seeing a lowering of the number of people entering the work force.

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If we were in a situation to rely on a much more optimistic economic forecast, and we find out 20 or 30 years from now that we're wrong we would have dug ourselves a much deeper hole, a much deeper hole to deal with this issue. Instead, if we find that the economy grows much more rapidly, we'll find ourselves in a situation 20 or 30 years from now with a very significant windfall. And I'm sure we'll be able to think of many ways to use that. (Laughter.)

We believe that the way you deal with this issue is to use prudent economic assumptions and demographic assumptions, which we use. We think it's the right course.

THE PRESIDENT: Let me say -- I'm with you. I think they're wrong, but I don't think we can take the risk. But let me tell you why it looks like they're right. The reason it looks like they're right is that the number of people taking early retirement, for example -- taking the early Social Security option -- is going up, still -- people checking out at 62. And then they -- if they're living to 82, then that's -- and by the way, even today people who live to be 62 have a life expectancy of nearly 80. A 76 average life expectancy is from birth. So somebody who lives to be 62 years old, unless they have some critical condition, their chances of living to be 80 or more are pretty good. So the assumptions are based on two things. Number one is a slowing of the growth of the work force, and number two is people drawing for a lot longer time.

Now, I'll make you a prediction -- that's one of the reasons that I think it's imperative that we make this bipartisan agreement this year -- we can make it wrong -- because I think you have to consider one thing. Number one, there's a record number of kids in school today. Now, they say they've factored that in, but that means you're going to have more workers in a few years. Number two, we've still got a fairly generous immigration policy, which I think, on balance, has served us well.

But the third and the most important thing is, after you get a certain percentage of people who retire at 62, and they're going to live until 82 or 85 or whatever -- if we take the earnings limit off, you will have more and more people working. The computer and the Internet are changing the nature of work. When I became President, there were only 3 million people making a living out of their homes. When I ran for reelection, the number was 12 million. I think, today, the number's almost 20 million.

So I think what you are going to have is a dramatic change in the nature of work in the next 20 years, and more people doing work in different places and different ways, especially older people. So my guess is, they are low, but if you look at people drawing Social Security for a longer period of time, and the sheer demographics, and you were in charge of keeping the thing stable, you'd probably make the same call they did.

DR. TYSON: I want to make an observation, which is that I think for the entire time I was with the economic team here we were very cautious. And the President and the Vice President correctly thought that the economy could do better -- and, in fact, they were better forecasters than his economic forecasters.

Having said that, the good news here is when you are projecting forward over very long periods of time, I really think

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caution is the right position, because we're talking about dedicating surpluses to two major programs. I think the American people can really have faith in this President and his economic team that the assumptions on which these surpluses are projected are very realistic and cautious assumptions.

The greatest likelihood, therefore, is positive surprises, which are the kind of surprises that we've had in the last six years. We've made cautious forecasts; the economy has done better than that. It's very important, I think, to assure people these surpluses we're predicting are realistic and we can use them.

THE VICE PRESIDENT: I just want to add briefly that in late '92, during the transition period in Little Rock, we made a conscious decision to choose the most conservative economic assumptions so that we would not have surprises on the wrong side. And we anticipated that we would have surprises on the other side. And I think that's probably the right philosophical approach here.

But beyond that, it's interesting that world economic growth right now is lower than the number used in this actuarial projection. And if you look at the unfunded pension liabilities in the countries that are some of our largest trading partners, it's a pretty sobering thought.

Final point: From the beginning of the Social Security program, its interaction with the economy was a key factor in the assumptions that we made about how Social Security's investments might strengthen economic growth above what it would otherwise be were clearly part of the projection. We ought to have a national debate, after this one about how to save Social Security, about how for the long-term we can make your prediction and Bob Reich's prediction come true by -- and I think the President's investments in next generation Internet, the IT-squared program -- there are a lot of investments that I think have the potential for really raising that economic growth number.

THE PRESIDENT: Mr. Pomeroy, Mr. Smith, and Mr. Cardin. Go ahead.

REPRESENTATIVE POMEROY: Mr. President, I think your framework has significantly advanced prospects for achieving Social Security reform. It represents in particular a conceptual breakthrough that I think is going to make this agreement possible by continuing absolutely the guarantees of Social Security; and dealing with individual accounts, the Universal Savings Account, as a new initiative to aid the retirement savings initiative and as an initiative that doesn't undermine in any way the guaranteed nature of Social Security. That was a real conceptual breakthrough and very important.

Secondly, and this is what I'd like some comment on, it seems to me in substance the critical piece of this program that maybe hasn't received enough attention since its announcement in the State of the Union is the effect of paying down the debt held by the public and positioning our country to take a greater demand on the Social Security program, on the Medicare program, as the country ages and the demographics change. Pay down the debt now, because we know we've got a bigger problem later is really the substance, heart of this as I see it. I'd like some further comment on it.

DR. TYSON: Well, I agree with that completely. I would say that in a way, economists who thought about the

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problems confronting the country have thought about the financing problems of Social Security and Medicare. They've also thought about the problem that for at least 30 years the savings rate in the United States has been going down.

And you need to, when you know there's going to be a demographic bulge and you know that costs of health care are going to continue to rise, you need to be saving more. And we were saving less. The government was dis-saving when we had a huge deficit, and meanwhile, personal savings rates have continued to go down. So one of the things that this plan does -- we can say it reduces the debt. Another way I would say it is that it is going to increase the savings rate. I think the Council of Economic Advisors estimates that this might put an additional 2 percentage points on our national savings rate.

This is something which we have been trying to achieve for at least 30 years. The rest of the world has correctly been lecturing us that as a great nation we should become a creditor nation, we should not be borrowing from the rest of the world and dis-saving.

So I agree with you completely, it hasn't been remarked enough that this is a savings program, as well as the use of a savings to secure these two entitlement programs.

THE PRESIDENT: Janet Yellen, our Chair of the Council of Economic Advisors, nodded yes when she said it will add 2 points to the savings rates. That's good.

REPRESENTATIVE SMITH: Mr. President, maybe a question for Dr. Tyson. Following up on what the Vice President said, it seems to me what is going to happen in 30 years is two workers have to have a kind of productivity to produce enough goods to satisfy the Social Security and Medicare needs of themselves and one retiree. So part of the mix has got to be what are we going to do to ensure we're on the cutting edge of productivity and competitiveness.

DR. TYSON: Well, the President and the Vice President have led the way really on thinking about the right investment strategy for our future -- in education, in technology, in liberalizing trade. So I think -- I would say, we know what the ingredients are, the basic ingredients, and the policies I think they should speak to.

THE VICE PRESIDENT: Well, the new Governor of California, Gray Davis, points out that if every retiree 30 years from now is going to have two workers financing his retirement, he says, I don't want my two to have a C average and inadequate schools today. (Laughter.) A pretty good way to put it.

THE PRESIDENT: You talk about our long-term productivity. Let me just mention one thing that was a part of my State of the Union address that didn't get a lot of attention, but I hope that it will get more and I hope that there will be a real bipartisan effort here. And that is that I think we still have a lot of capacity for growth and productivity within the borders of the United States.

When you've got hundreds of thousands of high-tech computer jobs going begging, and when you've got neighborhoods in this country where the unemployment rate is still in double digits, mostly in inner cities and rural areas -- our trick in the next 10 years, if you want to think about how we can continue to grow this economy with no inflation, will be to try to find

the right mix of incentives for private sector investment and then removing the barriers to employment investment in a lot of places, whether it's education and training or whatever else.

We've had some success with the empowerment zones. I proposed some new initiatives in my State of the Union. But for the last two years -- Reverend Jackson is here -- I've gone to this unusual meeting with Jesse Jackson, Jack Kemp and Wall Street to talk about how we can get Wall Street to try to invest more in our inner cities and our isolated rural areas. And I think that's something we should not dismiss the potential of.

If you think about it, if you go into a place where there is complete under-investment and, therefore, under-purchasing of American goods and services, if it works when we invest in Central America or whatever, it would certainly work here. And I'd like to see some more careful attention given to that.

Mr. Cardin and Mr. Markey?

REPRESENTATIVE CARDIN: I think there is a general theme that has been carried here today of the economic security for our older Americans. And I'm glad Mr. Riemer is here because I think you have to -- this generation in order to really deal with the problems of our future seniors. We are talking about programs that will be for 20, 30, 40 years from now.

The Social Security program is so important as far as economic security for future generations. And I'm glad to hear that paying down our deficit -- Dr. Tyson's analysis that that could add 2 percentage points to the personal savings -- because one of the statistics we're not proud about in below savings ratios of Americans -- Social Security is part of a three-legged commitment to economic security -- private savings and private retirement being the other.

I guess my question is to Mr. Riemer. I'm very intrigued by the USA accounts, in which you provide incentives for young people and for low-wage workers to start retirement accounts, by offering economic incentives from the government to match their savings so that you put money away, in addition to Social Security, for your future. How do we get that message across to young people about the economics of saving and the economics of involving themselves in retirement accounts?

MR. RIEMER: That's a great question. I think a lot of young people are thinking about that issue, and they're thinking about it in very concrete ways. Benefits are one of the most important issues for new job applicants, as surveys have shown.

But I think all this talk about Social Security and the insecurity that many people feel about the future of the program have made young workers turn to saving and investments. And they've really increased the focus on pensions. So I think there is a receptivity to the message, but we have to get out with a campaign to put out an idea like USA accounts, which I think truly is a great policy for the next generation, and really stir up some excitement about it.

But I think that young people are waiting to hear for this kind of long-term thinking. I think when you combine an approach that strengthens Social Security, but supplements Social Security with a new kind of saving program, it really begins to broaden the opportunity to save. I think that's exactly what young people are waiting to hear. So I would say that young

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people have been waiting for this kind of a policy for a long time, and it's just now a matter of speaking.

THE PRESIDENT: Mr. Markey?

REPRESENTATIVE MARKEY: I think it's a really brilliant package of recommendations which you've made. One of the questions that has been raised is that, although -- as you point out, Mr. President -- only four percent of the market at any time would have government investment in it, that that's still too much, and that you have to have safeguards against government interference with the market.

And what I was wondering is if Laura could take that question, and perhaps construct a set of safeguards that we could use as a touchstone to answer that question of how to protect the market from government interference.

DR. TYSON: Well, first of all, I want to say that we do have models that show we can do this. We have models of state and local governments that do it. We have the Federal Retirement Investment Board. When I was a member of the government, I was part of the Thrift Savings Plan, and we had a board, and we had a set of funds, and the funds included equity funds and bond equity funds -- every sort of set of funds you would normally get in a private retirement system like UC-Berkeley, where I am. And they were managed efficiently and independently.

I think that the issues here -- and I really would refer to a proposal that has been suggested by Henry Aaron and Bob Reischauer. They've actually laid out a very nice proposal. The ingredients are how the board of managers was chosen; the fact that they would accept bids from private institutions to handle the money for them; the fact that if the government had ownership rights, through holding equity, that those rights would be proxy-voted by members of the board, independently of government considerations.

The key thing is that these decisions on how to invest and how to vote as an equity owner need to be based on fiduciary responsibility, not on political influence, not on political concerns. But we have examples of institutions already doing that at the Federal level, and furthermore, we know what the ingredients are. So I think this is a brilliant -- I agree with your word entirely -- I think it's a brilliant proposal.

Look, any portfolio manager would tell any entity that was holding a lot of reserves, you should diversify your portfolio. The government has a huge portfolio. It is not diversified right now. It is an elementary economic logic that we should have some diversification. We can solve the problem, administratively, of how to do it.

THE VICE PRESIDENT: If I could add briefly to that -- on the side of the investments chosen, there are also some options there. Index funds -- there are all kinds of investment opportunities that add a whole new layer of insulation from the political problems that some people have raised, which we looked at so carefully.

And, you know, during this whole national discussion, one of the single most important, salient facts that jumped out at everybody is that, over any 10-year period in American history, returns on equities are just significantly higher than these other returns. And in order to capture some part of that economic advantage, surely there is a way to solve these

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problems. And the people who have spent time on it are just totally convinced that it can be solved pretty easily.

THE PRESIDENT: I want to call on Mr. Portman, but Gene Sperling, did you want to say anything about the question here?

MR. SPERLING: I think Laura hit the issues well. But I think that a couple of principles that we are working with the President and Vice President on that I think we want to articulate is the one that whatever the trustees do, their role -- essentially they should be dealing with competitive bidding so that private sector managers are investors. So the actual investment will be taking place by private sector managers.

To the extent that you had several doing that, then you have even more -- of power. So let's say that the President said that the Social Security trust fund would have 4 percent of the market when it was fully implemented. If there is competitive bidding -- then no one would have more than 1 percent -- it would be a very small amount of market power -- if all of the investment is by private sector managers, then you have an -- index which are passive. We don't allow any picking of stocks. And that means discipline by all sides politically. No political interference at all.

So if you have an independent structure like -- where they cannot be removed, protected for political reasons, we have independence; you have private sector managers, competitive bidding; you have broad-based index without any kind of picking, then you're creating the kind of system that is insulated and should get the highest return.

We should note that when you have this kind of investment, the administrative costs are very, very low, and that means more dollars are going to the recipient and less are being diverted to brokerage fees and other things that would happen where you have millions and millions in individual accounts.

THE PRESIDENT: Mr. Portman.

REPRESENTATIVE PORTMAN: Mr. President, I commend you for raising the profile of this issue and again addressing it in the State of the Union. I think you've made some very -- (inaudible) -- in just the last couple of weeks -- being able to -- (inaudible.)

I was impressed at the retirement summit in December when you made the point that there really are three major options here to deal with -- talked about earlier. One is increasing payroll taxes. I don't think anybody is particularly -- (inaudible.) Another is reducing benefits, which I don't think, again -- (inaudible.)

And the third really is, as you said, taking advantage of the dynamics of the marketplace to get -- (inaudible) -- historically from the market. And I would just encourage you and your administration to keep the notion of private savings accounts on the table as we enter into these more intense discussions between the Congress.

As a Republican I have worked very hard on the issue of private savings with Representative Pomeroy and others, and I think USA accounts are a step in the right direction. But ultimately, they don't tie into Social Security, of course. And if we are going to solve this problem long-term, I think we need to deal with Chairman Greenspan's and others about political

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interference in the marketplace, notwithstanding Gene Sperling's comments to Congress -- I'm not sure that is something that most of us could be helpful with --

And the second is his concern -- and, perhaps, Dr. Tyson, I misunderstood you, -- you talked about the need to increase net personal savings, that ultimately it's about creating new savings and that that is so important in terms of our economic growth and creating new jobs for the future. And then -- the government borrowing money and then investing it, you're not telling us what we need to do, which is to increase net savings -- and then rather than having individuals invest that money in the private market -- have a better impact -- on the economy in the long run. Thank you.

DR. TYSON: Can I just clarify something? This proposal does increase national savings. It increases government savings, because the government is actually for -- surplus projection means the government is bringing in more revenue than it's spending. It is holding those revenues in reserves to pay off Social Security and Medicare claims going forward.

So there is an increase in savings. I believe Chairman Greenspan was saying, and others would say, that if you look at the personal savings rate, what households are doing in the United States, that we've had a disturbing tendency for that rate to continue to go down. In fact, in the last quarter of last year the observed measured savings rate was negative -- people were actually spending more than they were bringing in.

Now, I think in thinking about the role of private saving accounts in this, I will tell you my position, and I think it would be that, if one wants to have private saving accounts, having them as a complement to Social Security is one thing. Having them as a substitute for Social Security is quite something else, because a substitute for Social Security undermines the social insurance value of Social Security.

We have a system in which individuals' retirement through Social Security depends upon their earnings during lifetime. It does not depend upon the riskiness of their investment strategy. It does not depend upon them paying administrative fees to get a high rate of return on a private account. It does not depend upon the date they retire and what the stock market looks like that day. I think we want to maintain those great benefits of social insurance. So that's what the USA accounts seem to me to do. They complement -- they add to Social Security.

THE PRESIDENT: We are getting down to the real details of this debate that will unfold. I wanted to make two points, if I might.

There are some proposals for savings accounts, private savings accounts, that say that they could ensure a floor, which would be a return no less than Social Security would otherwise give. That will all be part of this debate, and I'm looking forward to it. And I appreciate it.

Let me say one other thing to Mr. Portman that -- if you were to set aside this much money for Social Security and Medicare, then most of the Republican caucus would believe that there is not enough money left for a tax cut of the size you believe should flow. And then we would argue about the form of the tax cut. If you look at that negative savings rate, I think that's partly because people have great confidence -- you know,

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the stock market went up again, and also interest rates are down, home mortgage payments are lower, and a lot of people may feel like they're more comfortable spending more money.

But one of the challenges that we have to face in this coming Congress is not only what the size, but what the nature, of the tax cut should be. And should it be in the nature of helping people develop greater private savings plans, or should it just be a tax cut that people can dispose of?

Now, the argument for the latter, frankly, which doesn't have all that much appeal to the young or to the old, but might have a lot of appeal to the parents in the middle is, hey, I'm maxed out on my credit cards and I need some help. You know, there's a negative savings rate, that means I can't go charge anything else.

But the argument for the long-term of the country, it seems to me to be the stronger argument, because that is one way we can have an increase in personal savings as opposed to the aggregate savings rate. When we buy in the debt -- which we'll do if we save this money, we'll be buying back the debt -- that will increase the national savings rate, and it will free up private money, and it will be invested privately.

But if you want to increase the personal savings rate, it seems to me, we need to really think about not only what the size, but what the nature of the tax cut should be.

We've already gone 40 minutes over -- that's a good sign -- but I'll give Mr. Hill the last word, because he had his hand up, and then we'll go. Go ahead.

REPRESENTATIVE HILL: Thank you, Mr. President. I want to go back to the question of investing the money in the stock market -- As I understand it, history shows us that public institutions investing privately have produced substantially lower rates of return than private institutions investing in the market. It's a fact, it's a factor like a 50 percent higher rate of return.

I guess the question I have is -- and I have some concern, obviously, about the idea of the Federal Treasury investing in the private marketplace -- have you identified what the elements are, what the obstacles are, what the barriers are, that cause the public institutions' investment to show such a lesser return than the private institution investing in the same marketplace? Thank you.

THE PRESIDENT: Gene? (Laughter.) They're more risk-averse, I imagine is one reason.

MR. SPERLING: I think that's right. Actually, part of this is that state and local pensions do tend to be more risk-averse, and therefore have a lower percentage of their portfolio in equities.

And I think you should remember that under any scenario, investment in the market over a long period of time does have a higher return than the government bonds that Social Security gets now. So under any scenario, the Social Security recipients would be getting a higher return. But the important point is that the provisions that we're talking about -- broad-based index -- is designed to ensure that there are not inappropriate political calculations coming in, so you are getting the highest return possible.

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So I think for recipient, you're always doing better when you have a long-term investment in the market. And we would be doing everything in the provision -- (inaudible) -- to make sure that those decisions are being made on the soundest economic judgment and that clinical calculations from the right or left are not part of that.

THE PRESIDENT: Thank you very much. This was terrific. And thank the participants, thank you. (Applause.)

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11:50 A.M. EST