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01/19/99 12:40:21 PM

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Subject: Fact Sheet: Saving Social Security Now

## **SAVING SOCIAL SECURITY NOW AND MEETING AMERICA'S CHALLENGES FOR THE 21st CENTURY**

**In His State of the Union Address, President Clinton Will Put Forward His Framework To Save Social Security Now, While Meeting America's Challenges for the 21st Century.**  
The President and Vice President's framework strengthens Social Security by:

Transferring 62 percent of the projected budget surpluses over the next 15 years -- more than \$2.7 trillion -- to the Social Security system.

Investing a portion of the transferred surpluses in the private sector to achieve higher returns for Social Security -- just as any state or local government, or private pension does -- after working with Congress to devise a mechanism to ensure that the investments are made independently and without political interference. We will support using a broad-based neutral approach managed by the private sector with minimum administrative costs.

Keeping Social Security solvent until 2055.

Calling for a bipartisan effort to make the hard-headed but sensible and achievable choices needed to save Social Security until at least 2075. As part of this effort, President Clinton and Vice President Gore believe that we must:

Reduce poverty among elderly women -- particularly widows, who have a poverty rate nearly twice the overall poverty rate for older Americans.

Eliminate the confusing and out-dated earnings test so that we stop discouraging work and earnings among older Americans.

**After Social Security Reform Is Secured -- Consistent With the President's "Save Social**

transferring 62 percent of the projected surpluses for the next 15 years to Social Security and investing a portion of them in the market -- just like any private or state or local government pension does -- we will ensure that Social Security is on sound footing for 55 years -- until 2055.

**Must Work Together -- Across Party Lines -- To Make Hard-Headed, But Sensible and Achievable Choices To Save Social Security for 75 Years.** President Clinton's goal is to save Social Security for 75 years. To do so, he believes we must work together in a bipartisan way to make the hard-headed, but sensible and achievable choices to save Social Security through at least 2075.

#### **Publicly Held Debt Will Fall To Lowest As Share of GDP Since 1917**

**Turning Around America's Fiscal Position.** Under Presidents Reagan and Bush, the debt held by the public quadrupled, rising from \$785 billion in 1981 to \$3.2 trillion in 1993. As a share of the economy, the publicly held debt increased from 26 percent in 1981 to 50 percent in 1993. Since President Clinton took office, the publicly held debt as a share of GDP has dropped to about 45 percent.

**Debt-to-GDP Ratio Will Fall to Lowest Level Since 1917.** Under the President's framework, current projections suggest that the publicly held debt, as a share of GDP, will fall from about 45 percent today to less than 10 percent in 2014 -- its lowest level since 1917.

#### **Reduce Poverty Among Elderly Women -- Particularly Widows**

**Poverty Rates Among Elderly Women -- Particularly Widows -- Remain High.** The poverty rate for all elderly women was 13.1 percent in 1997. For widowed women, poverty rates are especially high: the poverty rate is 18.0 percent for widowed women -- nearly four times the poverty rate of married women (4.6 percent) and much higher than the poverty rate of widowed men (11.4 percent).

**President's Framework Would Lower Poverty Rates Among Elderly Women -- Especially Widows.** Currently, widow benefits vary from 50 to 67 percent of benefits for a married couple when both members were alive. The official poverty thresholds imply that a widow needs over 75 percent of a couple's income to maintain her pre-widowhood consumption. This is a key reason why widow poverty is so much higher than overall elderly poverty. The President is committed to reducing the loss of Social Security income at widowhood.

#### **Eliminate the Out-Dated and Confusing Earnings Test**

**President Clinton Believes We Should Eliminate The Earnings Test.** President Clinton believes that the earnings test has outlived its use. Today, it primarily serves

to confuse people, and to discourage them from working. We want to work with Members of Congress to eliminate the earnings test as part of a comprehensive package to strengthen Social Security for the 21st century.

**Earnings Test Should Be Eliminated Because It Is Out-Dated And Confusing -- And It Discourages Work and Earnings Among the Elderly.** The Social Security earnings test is a confusing relic of a past era. It discourages the elderly from working. It is administratively complicated; administering the earnings test imposes significant administrative burden on the Social Security Administration. Finally, eliminating the earnings limit would have almost no effect on the long-run actuarial balance of the Social Security system.

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## **MEETING AMERICA'S CHALLENGES FOR THE 21st CENTURY**

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**After Social Security Reform Is Secured -- Consistent With the President's "Save Social Security First" Commitment -- The President Proposes To Meet The Following Three Challenges:**

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### **STRENGTHENING MEDICARE FOR THE 21st CENTURY**

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**RESERVE 15 PERCENT OF THE PROJECTED SURPLUSES FOR MEDICARE,  
EXTENDING THE LIFE OF THE MEDICARE TRUST FUND UNTIL 2020.**

**We Must Prepare for the Health Care Challenges of the Next Century.** In its 30-year history, Medicare has contributed to longer lives and better lives for America's elderly and disabled. However, Medicare -- like Social Security -- will be impacted by the tidal wave of the "Senior Boom." Its enrollment is expected to double by 2030. In addition, Medicare -- as well as the private sector -- faces escalating health care costs. As a result, the Medicare Trust Fund is expected to run out in 2008, if no actions are taken.

**Reserving Nearly One in Six Dollars of Surplus to Help Keep Medicare Safe Until 2020.** The President's framework would reserve 15 percent of the projected surpluses -- \$650-\$700 billion -- over the next 15 years for the Medicare Trust Fund. These funds would be prohibited from being used for any other purpose, ensuring that the money will go to help the health care needs of older and disabled Americans. Even in the absence of broader reforms, the President's framework would guarantee that Medicare can continue to provide its critical health services until 2020 -- doubling the

life of the Medicare Trust Fund and providing the strongest outlook in the last 25 years.

**New Funds Should Be Used To Help Achieve Broader, Bipartisan Reform.** The President believes that the Medicare Commission and Congress should utilize these new dedicated dollars as part of broader, bipartisan reforms. Such reforms, including the development of a long-overdue prescription drug benefit, are essential to provide efficient health care to the elderly and people with disabilities in the 21st century.

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### **UNIVERSAL SAVINGS ACCOUNTS (USAs)**

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**RESERVE 11 PERCENT OF THE PROJECTED SURPLUSES TO CREATE NEW UNIVERSAL SAVINGS ACCOUNTS (USAs) SO EVERY WORKING AMERICAN CAN BUILD WEALTH AND A NEST EGG TO MEET THEIR RETIREMENT NEEDS.**

**USA Accounts Will Help Americans Build Wealth for Their Retirement -- Strengthening Personal Savings and Pensions.** To help supplement Social Security, the President proposes to create USA accounts to help strengthen two legs of retirement security: personal savings and pensions. Under the President's framework, we will reserve 11 percent of the projected surpluses over the next 15 years -- averaging about \$33 billion per year -- to create Universal Savings Accounts (USAs), so that every working American can build wealth and a nest egg for retirement.

**We Want to Work With Congress And Experts To Determine Precisely How USA Accounts Will Be Structured So That They Are Progressive And Help Working Americans Save for Retirement.** President Clinton believes the government should provide most Americans with a flat contribution. In addition, the government will match a portion of each dollar an individual puts into the account -- with larger percentage matches going to lower-income workers. However, we want to work with Members of Congress and pension and personal savings experts, to ensure that USA accounts build on the current private-sector pension system, are progressive, and help working Americans save for their futures. Therefore, the exact size of the contributions, match rates, and income limits will be determined later.

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### **MILITARY READINESS AND OTHER CRITICAL INVESTMENTS IN AMERICA'S FUTURE**

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**RESERVE 11 PERCENT OF THE PROJECTED SURPLUSES FOR MILITARY READINESS AND PRESSING NATIONAL DOMESTIC PRIORITIES, SUCH AS EDUCATION AND RESEARCH.**

**Ensuring That America's Military Continues to be Ready for the Challenges of the**

**21st Century.** Early in January, President Clinton proposed a bold, new strategy to ensure that America's military continues to be fully prepared to protect our national interests as the world's most powerful fighting force. President Clinton believes this approach will provide the resources to meet his proposed detailed blueprint for military readiness.

**Ensuring We Meet Other Critical Investments In America's Future.** In addition to military readiness, the setting aside of 11 percent of the projected surpluses -- nearly \$500 billion -- will allow America to meet its other critical investment needs, such as education and research.

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## **SAVE SOCIAL SECURITY NOW: STRENGTHENING SOCIAL SECURITY FOR THE 21st CENTURY**

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**In His State of the Union Address, President Clinton Will Put Forward A Framework To Strengthen Social Security Now.** Since its creation more than 60 years ago, Social Security has been a bedrock of retirement security for Americans. There are 76 million baby boomers looking ahead to retirement. By 2030, there will be twice as many elderly as there are today, putting pressure on the Social Security system. After 2032, if we do nothing, the Trust Fund will be exhausted and Social Security will have only enough resources to cover 72 cents per dollar of promised benefits. President Clinton and Vice President Gore believe we must act now to tackle this tough, long-term challenge. That is why they are proposing to:

### **Use the Budget Surplus To Save Social Security Now**

**"Saving Social Security First."** Last year, in his State of the Union Address, President Clinton promised to save the budget surplus until we knew how much would be needed to save Social Security for the 21st century. This year, in his State of the Union Address, President Clinton reiterated his pledge to save Social Security first -- committing to reserve the budget surplus until Social Security reform is secured.

**62 Percent of the Projected Budget Surpluses Will Be Used to Save Social Security.** President Clinton proposes to transfer 62 percent of the projected budget surpluses over the next 15 years -- more than \$2.7 trillion -- to Social Security.

### **Invest A Portion of the Surpluses To Achieve Higher Returns for Social Security**

**Invest Portion of Surpluses To Achieve Higher Returns, Working With Congress to Devise A Mechanism to Ensure Independent and Non-Political Investments.** We want to work with Members of Congress from both sides of the aisle to craft a bipartisan Social Security plan which invests a portion of the surplus transferred to Social Security to achieve higher returns, and includes a mechanism to ensure that investments are made independently and without political interference. We will support using a broad-based neutral approach managed by the private sector with minimum administrative costs.

To achieve higher returns for Social Security, less than one-quarter of the transferred surpluses will be invested in the stock market.

### **Save Social Security Until 2055 -- And Work Together To Save It Until At Least 2075**

**President's Framework Keeps Social Security Solvent Through 2055.** By

## **Security First" Commitment -- the President Proposes To:**

**Strengthen Medicare for the 21st Century.** The President's framework will reserve 15 percent of the projected surpluses for Medicare, ensuring the Medicare Trust Fund is secure for 20 years. The President believes that these new resources should be used to help achieve broader, bipartisan reforms -- which should include a prescription drug benefit.

**Create New Universal Savings Accounts -- USA Accounts.** The President's framework will reserve 11 percent of the projected surpluses to create new Universal Savings Accounts (USAs) so all working Americans can build wealth to meet their retirement needs. To help Americans save and to strengthen our current pension system, the government will provide an equal dollar contribution for most Americans. In addition, the government will match a portion of each additional dollar an individual puts voluntarily into his/her USA account -- with larger matches going to lower-income workers.

**Prepare America for the Challenges of the Future.** The President's framework will reserve 11 percent of the projected surpluses for military readiness and pressing national domestic priorities, such as education and research.