U.S. SENATE COMMITTEE ON
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Opening Statement of Chairman Chuck Grassley
House Committee on Ways & Means and Senate Committee on Finance
Joint Hearing on "The Social Security and Medicare Trustees' Reports"
March 20, 2001

I would like to welcome our distinguished witness, Treasury Secretary Paul O'Neill. The purpose of today's hearing is to review the 2001 Social Security and Medicare trustees' reports.

The annual release of the trustees' reports is a Washington tradition that often goes unnoticed by the American public. Turning a discussion of "trust fund solvency" and "actuarial balance" into exciting prose is no easy task. Exciting or not, these reports do provide valuable information about the financial health of Social Security and Medicare.

I hope that today's hearing will help the public understand the problems facing these programs. As this year's reports reveal, Social Security and Medicare are simply unsustainable in their current form. Let me repeat -- simply unsustainable. In fact, the trustees project that promised benefits will exceed scheduled payroll taxes and premiums by $465 trillion over the next 75 years. That's an astounding number -- $465 trillion.

Some may try to tell us that it's not as bad as it sounds. Well, believe me they don't know what they're talking about. For example, in theory, a portion of this shortfall will be covered by government bonds in the Social Security and Medicare Part A trust funds. But these bonds are merely a claim on future general revenue, so the government can only redeem them if it raises income taxes, or borrows from the public. So the hope that these trust fund surpluses will save us is a fool's hope.

Some claim that using the Social Security surplus to pay down the federal debt will alleviate the funding shortfall by reducing interest payments to the public. But these interest savings will cover less than 5 percent of the shortfall. If the government borrows from the public to cover the rest, it will only take 10 years to run the debt back up again. So that's no real solution.

Even more troubling, the near-term surpluses projected to accumulate in the Social Security and Medicare trust funds will soon exceed the amount of debt available for repayment. At that point, the government would be forced to invest Social Security and Medicare funds in non-governmental assets. Such investment could disrupt the financial markets and reduce the efficiency of our economy. We shouldn't go there.

With respect to Medicare in particular, for the <u>first time ever</u> the trustees have established a new section of the report that looks at Medicare's financial health <u>in total</u>. This is important, considering only 22 percent of beneficiaries utilized Part A, while 87 percent of beneficiaries relied on Part B in the year 2000. And Part A represents only 55 percent of total spending, while Part B represents 45 percent and is growing in double digits. When you look at Medicare as a whole, it will grow at a much faster rate than projected even one year ago! So we need to exercise caution in taking steps that might worsen this looming financial crisis.

Finally, there are those who suggest the magnitude of the problem facing Social Security and Medicare precludes any meaningful reduction in federal income taxes. But tax cuts will promote economic growth, thereby making it easier to fund promised benefits. Let's harness the power of our economy to help us save these programs for tomorrow's retirees.

I believe we can provide tax relief to hard-working Americans while at the same time protecting and improving Social Security and Medicare. Let's meet this challenge.