

SENATE BILL REPORT

SJM 8014

As Passed Senate, March 14, 2005

Brief Description: Requesting that the privatization of social security be rejected.

Sponsors: Senators Thibaudeau, Jacobsen, Fairley, Brown, Prentice, McAuliffe, Regala, Rockefeller, Fraser, Rasmussen, Weinstein, Kline, Keiser and Kohl-Welles.

Brief History:

Committee Activity: Ways & Means: 3/1/05, 3/2/05 [DP, DNP, w/oRec].

Passed Senate: 3/14/05, 25-23.

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass.

Signed by Senators Prentice, Chair; Fraser, Vice Chair; Fairley, Kohl-Welles, Pridemore, Rasmussen, Regala, Rockefeller and Thibaudeau.

Minority Report: Do not pass.

Signed by Senators Zarelli, Ranking Minority Member; Brandland, Hewitt, Parlette, Pflug, and Schoesler.

Minority Report: That it be referred without recommendation.

Signed by Senator Roach.

Staff: Terry Wilson (786-7433)

Background: Social Security is a social insurance system established in 1935 to provide benefits to workers and their family members upon retirement, disability, or death. It is an earned benefit insurance program, which means that only those who work and pay taxes are eligible for Social Security benefits. According to the most recent data, Social Security provides monthly benefits to 47 million beneficiaries. In 2001, Social Security paid a total of \$471 billion to retired workers, disabled workers, and to the surviving family members of deceased workers.

Social Security offers mainly retirement benefits, but workers can receive four different types of benefits under Social Security: retirement, early retirement, disability, and survivorship benefits. Workers are entitled to retirement benefits if they have contributed to Social Security for at least 10 years, and if they have reached 65 years of age, or 67 years of age for those born after 1959. Early retirement benefits are available to workers, at a reduced benefit rate if they have contributed to Social Security for at least 10 years and have reached the earliest age at which benefits can be paid, which is currently 62 years of age. Workers are also insured in case they become disabled and can no longer work. The number of years that are required to receive disability benefits varies with the age of a worker. Social Security offers life-insurance type benefits to workers. If a worker dies, that worker's family receives benefits

from Social Security. Survivorship benefits are paid if the deceased worker has, on average, worked at least one quarter for each year after the worker reached 21 years of age.

The social security program is funded by a payroll tax equal to 6.2 percent of wages. The employee tax is matched by the employer. Self-employed persons are subject to a tax equal to 12.4 percent of their income, which is both the employee and employer contribution. There is a ceiling on the amount of wages subject to the tax. The ceiling is adjusted annually for inflation. For 2005, the ceiling is \$90,000.

Because of the declining number of persons expected to be subject to the payroll tax in the future and the increasing number of persons who will be entitled to benefits under the program, funding of the social security program will be an issue at some point in the future. President Bush has proposed a modification of the social security program that would replace a portion of the current payroll tax with privately managed investment accounts.

Summary of Bill: Congress and the Administration are requested to reject the current effort to privatize Social Security and instead to engage in a dialogue with the American public to arrive at a solution that preserves the original intent of making Social Security an insurance fail-safe for the aged and disabled and a complement to an individual's private investments.

Appropriation: None.

Fiscal Note: Not requested.

Committee/Commission/Task Force Created: No.

Testimony For: Social security is an insurance program and not an investment plan. We all work together in this. Privatizing social security undermines the state economy and budget because it would remove a consistent, reliable spending base of senior citizens. The administration uses a pessimistic 1.8 percent growth rate to forecast exhaustion in 2042. Even then, the program could pay 75 percent of benefits indefinitely. The Congressional Budget Office's more reasonable 3 percent rate extends that date to 2052. In addition, the cost is \$850 million to \$2 trillion the first decade and \$5 trillion each decade after that. The proposal to change the COLA would result in a dramatic decrease in benefits. President Bush admits that private accounts will not solve Social Security's solvency problem.

Testimony Against: None.

Who Testified: PRO: Will Parry, Puget Sound Alliance for Retired Americans; Gene Forrester, Senior Citizens' Lobby, AARP National Legislative Council; Bruce Reeves, WA Senior Citizens' Lobby; Larry Greene, South King County Chapter Alliance for Retired Americans.