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**Testimony of Meredith Bagby, Third Millennium Board Member
President's Commission to Strengthen Social Security
Park Hyatt Washington
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First, I want you to know on behalf of Third Millennium how honored I am to testify today. Not only because of the significance of the decisions you're making for my generation, but also because your—our—being here confirms the strength of this democracy to do the government's other business despite our war on terrorism. It is encouraging to me as a young adult that you remain focused on reforming Social Security.

This Commission has a unique opportunity. After years of not facing the music on Social Security, Americans finally seem to be hearing the message from our economists, actuaries, and gerontologists. We have come to accept the monumental shortfalls that Social Security will face. Today, we see the white elephant in the room, we are looking him squarely in the eye, and we will take him on. Your excellent interim report only strengthens our resolve.

The immediate challenge facing this Commission is to craft a plan that meets the President's objectives, set forth in his May 2nd Executive Order. Put simply, you need simultaneously to design a system of personal accounts, return Social Security to sound actuarial footing, and do so without raising payroll taxes or affecting the benefits of current or near retirees. This may seem like a difficult task, but it can be made easy.

You must do just one thing: Call upon my generation to sacrifice. If you treat us like the adults we are, we will rise to the occasion. You must ask us to accept a plan that could raise our eligibility age and index it to average lifespans, lower our future benefits by altering the ways they are calculated, and tax our future benefits at a higher rate. If you do this, we will not oppose you. We will not vote members of Congress out of office who support your approach, assuming the logic of these steps is explained to our generation.

And the logic is simple: Due to demographics and the expansion of lifespans, the Baby Boomers will be creating an unprecedented financial burden that we Gen Xers and the Millennials will have to meet. What our peers need to hear from you, over and over, is why we need to act now to solve a problem that won't erupt for decades. And, once you have conveyed the urgency of the task and the costs of doing nothing, you need to explain how your plan solves the problem head-on.

Mr. Chairman, if this Commission is willing to make the case, our generation is ready to sacrifice. We hope older generations will also rise to the occasion and sacrifice.

While imposing whatever reasonable, extra costs you plan requires, please make provision for our one request: Give us the capacity to build meaningful retirement resources through a system of personal accounts. In other words, let us grow some wealth as well as redistribute it.

Why is this so important? According to the Employee Benefits Research Institute's 2001 "Retirement Confidence Survey," people between the ages of 26 and 36 are doing a lousy job of saving for retirement. This, despite the proliferation of 401(k)s. Twenty-one percent of this age group say explicitly they have invested nothing for retirement. Another twenty-one percent say they don't know how much they have earmarked for retirement or refuse to answer the question. (It's reasonable to assume that this category has invested little or nothing.) And another 22 percent say they have invested between \$1 and just under \$10,000—a very modest amount, given their ages.

Taken together, nearly two-thirds of my peers are failing to build retirement security, a sad phenomenon that mirrors the situation faced by older generations. However—given our young ages—we can break this cycle and ensure dignity in retirement for my peers, if we create a system of personal accounts now.

To me, as a young person, the most important step that you can take in formulating policy is to help secure a viable savings reserve for our future. America is known to have a pathetically low savings rate both collectively and individually. Any reform you implement must address this issue.

The importance of national savings cannot be overestimated. We rely on our capital stock to build roads and schools, pay medical bills, fight wars. If we are going to have long-term success, America needs to reverse the role of selling off our assets in order to pay for our own rabid consumption. If we can alert people in their own lives to this need for savings then we can take a valuable step toward bringing about a more financially secure future.

Furthermore, the relative youthfulness of Gen Xers gives us plenty of time to weather the fluctuations of the market and take advantage of the surprisingly stable—and agreeably high—long-term rates of return that diversified equity investment has historically offered. Data from Wharton Professor Jeremy Siegel, the guru of long-term investment, show that since 1801, owning stocks for a 35-year period gave an average after-inflation annual return of 6.8 percent. Even the worst 35-year spell returned an average 3.4 percent per year. By the Office of the Actuary's own calculation, this is two to four times what many Gen Xers can expect to see from Social Security.

Of course the notion of private accounts invested in the market may have lost favor in recent months, given the volatility and recent dips in the market. However, if we keep our wits about us, we still know historically and for the long-term that our market is resilient and yields strong rates of long-term profitability. As a cushion, we can also create a system that guarantees that if a retiree's personal account, in conjunction with his/her Social Security defined benefit, does not meet a pre-determined minimum threshold, the government will step in and make up the difference.

The Gen X firefighters and policemen who lost their lives on September 11th made the ultimate sacrifice for democracy. A request to their contemporaries to forego a small amount of Social Security money decades from now would be a well-timed yet miniscule sacrifice by comparison, and would not be rebuffed. Thank you.