



## **TESTIMONY**

**Before The Senate Judiciary Committee**

**Subcommittee on the Constitution,**

**Civil Rights and Human Rights**

**United States Senate**

**ON**

**“A Balanced Budget Amendment:**

**The Perils of Constitutionalizing the Budget Debate”**

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**WITNESS:**

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Chairman Durbin, Ranking Member Graham, and Members of the Senate Judiciary Subcommittee on the Constitution, Good morning.

On behalf of our members and all Americans age 50 and over, AARP appreciates the opportunity to submit written comments on the impact that a balanced budget amendment to the Constitution would have on Social Security and Medicare. A balanced budget amendment, while seemingly a common-sense answer to America's fiscal challenges, would likely subject Social Security and Medicare to potentially very deep cuts, without regard to the impact on the health and financial security of individuals. It would also likely result in significantly diminished resources for many other services that provide assistance to Americans least able to provide for themselves – services like delivered meals or heating assistance for those who are too frail or poor to take care of these basic needs without some community support.

A balanced budget amendment to the Constitution would prohibit outlays for a fiscal year (except those for repayment of debt principal) from exceeding total receipts for that same fiscal year. This is the equivalent of imposing a constitutional cap on all spending that is equivalent to the revenues raised in any given year. For example, Federal spending in 2011 is projected to be 23.8 % of the gross domestic product (GDP), but revenues are only projected to be 15.3% of GDP. If a constitutional balanced budget amendment were in place today, federal spending would need to be capped at 15.3% of GDP, or revenues would need to be increased to 23.8% of GDP. Based on an analysis prepared by the Lewin group for AARP, the American College of Cardiology, the American Hospital Association, the American Medical Association, and Leading Age, slowly reducing current spending to a less drastic 21% of GDP over the next ten years would result in significant cuts to Social Security, Medicare and Medicaid. Assuming cuts were phased in and distributed proportionate to the rate of growth in costs of each of these programs, by 2021 there would be a \$1.2 trillion cut in Social Security spending, a \$788 billion cut in Medicare and a \$527 billion cut in federal Medicaid spending.

These kinds of cuts would have an impact on real people. Social Security is currently the principal source of income for nearly two-thirds of older American households receiving benefits, and roughly one third of those households depend on Social Security benefits for nearly all (90 percent or more) of their income. Despite its critical importance, Social Security's earned benefits are modest, averaging only about \$1,200 per month for all retired workers in March 2011. Yet, according to the same Lewin analysis prepared for AARP and others, capping Social Security and programs which assist those least able to support themselves to 21% of GDP would increase the number of people living below the federal poverty level by 2.0 million people by 2014 and 3.4 million people by 2021. A shocking number of those reduced to poverty would be older Americans – 1.1 million Americans age 65 and older would live below the federal poverty level in 2014, and 1.9 million older Americans would be poor by 2021, if federal spending were to be slowly

reduced to 21% of GDP over the next ten years. These outcomes would only be more extreme if a constitutional amendment required spending to be capped at lower levels.

In fact, if the balanced budget amendment were in place today, the average Social Security benefit would be cut 27%. Based on the revenue and spending projections of the Congressional Budget Office, and assuming no new revenues, federal spending would need to be reduced from 23% of GDP to 16.8% of GDP in 2012. If across the board cuts were applied to reach balance, a low-earning retiree would see a 2012 benefit reduction from \$10,281 to \$7,510, and a middle-income retiree would experience a 2012 cut from \$16,932 to \$12,368. Of course, it is likely that the cut in annual Social Security benefits would be even deeper than this, as it is not realistic to apply any cuts to interest on the national debt, leaving a greater proportion of cuts to be absorbed by all other federal spending.

Even if such drastic reductions were not required by a balanced budget amendment, the predictability of both Social Security and Medicare would be undermined by the requirement that spending outlays equal revenues on an annual basis. Revenues fluctuate based on many factors, including the health of the economy and the rate of labor participation. Consequently, spending would of necessity also fluctuate under a balanced budget amendment. As a result, it would not be feasible to provide predictable Social Security and Medicare benefits that can be reliably delivered during an individual's retirement years. Individuals who have contributed their entire working lives to earn a predictable benefit during their retirement would find that their retirement income and health care out of pocket costs would vary significantly year to year, making planning difficult, and peace of mind impossible.

Another element of the balanced budget amendment—the requirement of a 3/5 vote to increase the debt limit—is especially likely to wreak havoc with the reliable provision of Social Security and Medicare benefits in the future. This increased threshold for increasing the debt limit was part of the balanced budget amendment proposal that Congress voted on in 1995, and most recently, in the House of Representatives on November 18. In light of the brinkmanship surrounding the increase in the debt limit earlier this year, and the uncertainty that created for millions of retirees, widows, surviving children and disabled workers who were unsure if they would receive timely Social Security benefits, a 3/5 requirement on future debt limit increases does not seem prudent. Such a requirement would likely invite future threats of disruptions in the provision of Social Security and Medicare benefits.

Furthermore, it is particularly inappropriate to subject Social Security to a balanced budget amendment given that Social Security is an off-budget program that is separately funded through its own revenue stream, including significant trust fund reserves to finance benefits. Social Security benefits are financed through payroll contributions from employees and their employers, each and every year, throughout an individual's working

life. The payroll contributions and benefits paid, including any administrative costs, are accounted for separately from the rest of the federal budget. Importantly, Social Security has not contributed to our large deficits.

In fact, Social Security has had cash surpluses for almost the past 30 years, taking in more in revenue than it has needed to pay benefits. These surpluses, generated by the payroll contributions made by the American people, have been used to meet other expenses of the federal government. In exchange for use of these surpluses, the federal government has issued Social Security U.S. Treasury bonds of equal value. That is, Social Security has reduced the past need for additional government borrowing from the public and resulted in publicly held debt that is less today than what it otherwise would have been. Consequently, imposing a cap on Social Security, as a balanced budget amendment would do, is unjustifiable.

There are additional, serious concerns with a balanced budget amendment. To be enforceable, a constitutional balanced budget amendment would shift the power to tax and spend from elected officials to an unelected judiciary. Such a change would weaken the accountability of Congress and the President for fiscal decisions and could lead to a constitutional conflict with the courts. As a practical matter, a strict constitutional requirement for a balanced budget would limit the government's ability to respond to changes in the economy and emergencies that require counter-cyclical measures or unexpected expenditures. While supporters assert that a balanced budget amendment would mirror the balanced budget requirements in many states, the structure of state requirements differs from the proposal presented for a vote in Congress. In particular, "budget balance" in the states generally relates only to their general fund, approximately half of a state budget, and not to the total budget, including capital spending. As a result, "balance" in state budgets does not automatically mean that current revenues equal current spending.

Our members and older Americans everywhere acknowledge the difficult challenge of getting our nation's fiscal house in order. But, doing so requires a real debate about the choices we need to make. A balanced budget amendment would result in forced cuts to Social Security and Medicare, rather than informed decision-making about the future of our nation. We urge Congress to not simply look at the numbers in the budget, but the real people that would be affected by the fundamental changes that a balanced budget amendment would produce. We look forward to working with Members of this Committee, as well as Members from both Houses of Congress and both sides of the aisle, to promote the conversation that will address our nation's long-term debt without sacrificing the current or future health and retirement security of our nation's seniors.