

Social Security: Is There Really a Crisis?

Social security is a long way from bankrupt, despite the president's assertion. Why, then, is Bush taking on America's biggest, most successful social program ever?

-- Karen Tumulty and Eric Roston

1. Free-market crusader Stephen Moore learned over the years that the quickest way to bring an abrupt end to a conversation was to mention two words: Social Security. He remember a White House meeting in the mid-1980s at which he raised the idea of overhauling the program -- the U.S.'s federally funded pension program -- as a way to cut the deficit. A top Reagan Administration official pretended to have suddenly gone deaf. Years later, Moore brought it up as Newt Gingrich and his wrecking manifesto for taking over the House of Representatives. Again, no sale. "It was one thing every Republican said was off the table -- even these revolutionary Republicans," Moore recalls. So he was more than a little shocked when he went to Austin in 1999 to meet the Texas Governor, who was putting together a presidential campaign, and George Bush himself brought up Social Security -- not just tinkering with the program but told Moore, "that I'm really committed to these private investment accounts."

2. It turns out he meant it. As Bush takes the oath of office and begins his second term this week, he is preparing to bet his presidential legacy on the very issue that

Republicans have been doing their best to avoid for decade. Transforming Social Security is Bush' s biggest domestic political gamble -- audacious even for a President who pricks himself on government program. Those who believe in it most deeply say it could redefine American politics itself, putting Republican principles in a position to dominate for the next half-century, as Democrats were able to do after F.D.R. created the program that was the signature of his New Deal. Just as Bush believes democracy has the power to transform places like Iraq, so too is he convinced that privatization of Social Security could recharge America' s future. The central idea is to take a portion of the tax every worker pays into the Social Security system and put it into a savings account that each individual can decide how to invest. By turning every American into an investor, and a government safety net into a system that rewards judicious risk and individual initiative, Republicans believe they can change how Americans see every question from free trade to capital gains -- tax cuts, "If we succeeded in reforming Social Security, it will rank as one of the most significant conservative governing achievements ever," Bush's strategic-initiatives director Peter Wehner wrote in a private memo to Republican allies two weeks ago. "The scope and scale of this endeavor are hard to overestimate. "

3. The same can be said for its degree of difficulty. Time's latest poll gives some indication of what Bush faces: 49% of respondents said they disapprove of the President's handling of Social Security, while only 40% saretid they approve. And

that' s before Bush has even put forward the details of his plan. Nonetheless, the President had begun his assault -- personally and through cadre of emissaries from Vice President Dick Cheney to Treasury Secretary John Snow -- labeling Social Security a "crisis" that must be fixed. "First step," Bush told Time last month, "is to make sure everybody understands we have a problem." The President last week surrounded himself with citizens ranging from children to an 80-year-old and warned that the Social Security system will be "flat bust, bankrupt" by the time workers in their 20s retire. As early as 2018, Bush said, "You' re either going to have to raise the taxes of people or reduce the benefits." At another appearance intended to promote federal standards for testing high school students, Bush went off script to warn a group of teenagers, "The system will be bankrupt by the year 2040."

4. That sounds pretty scary -- except that it' s not true. What will actually happen in 2018, according to the Social Security trustees who oversee the program is that the money paid out in benefits will began to exceed the amount collected in taxes. And since Social Security will run a surplus until then (and has been running one for some time), it has billions available that it can tap to fill the gap. Even at conservative estimates, the system as it stands will have enough money to pay all its promised benefits until 2042 and most its obligations for decades after.

5. What' s more, even if you take the President at his word -- that a crisis and

bankruptcy are fast approaching -- the introduction of private accounts does nothing to slow that process. On the contrary , it makes things worse, by diverting pay roll taxes from current retiree benefits and bringing the end of surpluses that much closer. Given all that, what the President after?

6. As Moore learned when he visited Austin, Bush' s fascination with Social Security began before he got to Washington. As Governor, his places like Galveston Country that had allowed their employees to opt out of government retirement plans and invest the proceeds in private funds -- yielding legends of courthouse janitors retiring with \$750,000 brought in experts to brief him on how privatization had worked in places like Chile, and even Sweden -- surely one of the rare instance of a Republican taking the lead from a country known for a new socialist welfare system.

7. Democrats have darker views of Bush' s motives, saying it has been a long-standing Republican goal to dismantle the vestiges of the New Deal and the basic contract it struck between the government and its citizens. They also contend it is perfectly in keeping with everything they know about Bush that he would create the mirage of pending catastrophe to achieve that goal. " We have an Administration that falsely hypes almost every issue as a crisis." the liberal lion Edward M. Kennedy said in a speech last Wednesday, which happened to be the same day The Washington Post was reporting on its front page that the CIA had

quietly given up its hunt for weapons of mass destruction in Iraq. "They did it on Iraq, and they are doing it now on Social Security." (As for voters, they don't seem to know what to make of the real situation: in the Time poll, 45% agreed with Bush that the system faces a "crisis" ; 44% said the claim was just a "scare tactic.")

8. And yet Bush is right about one big thing: Social Security does face a fiscal challenge -- one that will be less painful to handle the sooner the U.S. tackles it. Though policymakers talk of Social Security as a trust fund (or, in the imagery that Al Gore and Saturday Night Live made famous, "a lock box"), it was enacted as an insurance program in which current workers pay for older generations. Today more than three quarters of payroll taxes go to pay benefits. With baby boomers getting ready to retire in droves over the next few decades and life expectancies growing , the ratio of workers paying taxes to retiree in 1955 and will drop to 2 workers for every retiree in 2040.

9. That projected shortfall is not a new situation, or even the worst that Social Security has faced . The system came within days of insolvency in the early 1980s. And there's always the option of fixing it the way policymakers did then, by raising taxes or tinkering with benefits by, for example, raising the retirement age. It's not a permanent solution, but it could add many decades to the life of the program.

10. What about Bush' s proposed individual accounts? On their own, they do nothing to solve Social Security' s funding problems. Even the White House admits as much. Personal retirement accounts, "for all their virtues, are sufficient to that task," Whether wrote in his memo, There' s also an inconvenient fact that Bush rarely mentions: if workers start investing payroll taxes in individual accounts, the government will need another source to cover benefits for retirees -- as much as \$2 trillion by some estimates. The options are grim: borrowing heavily, cutting benefits or both. While Bush has not spelled out how he would deal with what are known in bureaucratic jargon as the "transition costs" Wehner and others at the White House have signaled that he is leaning toward a significant reduction in future benefits that gets deeper over the decades. Some Republicans say that move alone could kill Bush' s plan. "Any effort to change the benefit pattern just virtually guarantees you can' t get anything done," Gingrich warns. "The Democrats and labor are putting together a massive campaign. If you give them a weapon that big, they' re going to succeed."

11. That Americans should feel so protective of Social Security reflects the central role it has come to play in their lives, their expectations and their peace of mind. When Franklin Delano Roosevelt signed it into law in August 1935, he didn' t use the word crisis because he didn' t have to: 20% of the country was out of work, and no one was poorer than the elderly. "We can never insure 100% of the population against 100% of the hazards and vicissitudes of life, but we have tried to

frame a law which will give some measure of protection to the average citizen and to his against the loss of a job and against poverty-ridden old age," F.D.R said. At the end of 2004, about 48 million American -- not just retired workers but also the disabled and the spouses and children of deceased workers -- drew \$41.5 billion a month a benefits. Even with 401(k)s and pensions figured, nearly two-thirds of those who receive benefits count on it for more than half their income; a third rely on it for 90%.

12. All of which explains why rank-and-file Republicans on Capitol Hill -- who haven' t forgotten how they used to get clobbered for storming the microphones to pledge their unconditional supports for anything that would change the basic outlines of this arrangement. Anxiety is especially high in the house, where all 435 lawmakers have to run for re-election next year. "I' ve told my staff we are going to keep all options open. I' m not saying yes or no at this point." says Republican moderates known as the Main Street Partnership. "It' s well and good to say the average gain in an investment account would be higher than if you left it in Social Security, but there' s a definite certainty to Social Security. When you' re in the market, you' re subject to the whims of the market."

13. What' s more, studies of how Americans invest their 401{k} accounts suggest that. Given the chance to make choices, most can' t even beat a basic index fund. People tend to chase last year' s returns, sticking with stocks long after they have

peaked, or invest too conservatively or fail to diversify. Still, there are reasons to think the public, particularly younger Americans, might be open to the idea of taking more control of their own retirement. As the New Deal generation dies off, it is being replaced by one far more skeptical about Social Security. In the Tim poll, a majority of the workforce -- 53% -- said they had little or no confidence that the current system would provide full benefits when they retired. Half of those from 18 to 34 said they supported the idea of diverting part of their Social Security taxed into individual accounts, compared with only 30% of those 55 and over. (That's one reason Bush rarely missed an opportunity to reassure older people that his plan would maintain their benefit.) But in all age groups, a large majority said they would reject the plan if it meant heavy government borrowing.

14. Bush's approach has met nearly universal opposition among Democrats, labor and liberal groups. The formidable AARP, a crucial ally in his successful fight last year for a Medicare prescription-drug program, is on the other side this time. It has already started newspaper ads warning that private accounts are simply too risky.

"It's a little ironic that the AARP would be saying that, since one of the major things the AARP does is run [an investment program] for retirees," countered Treasury Secretary Snow in an interview with Time. "The President made it clear that these plans are not going to be high risk. You're not going to be allowed to bet on any stocks or go out to the roulette wheel."

15. The politics around Social Security have shifted enough that some Democrats argue they cannot count on winning simply by saying no (though it has always worked in the past). Bruce Read, who was President Bill Clinton's chief domestic adviser, says legislative fights should carry the same warning as investment accounts: past performance is no guarantee of future results. "We need to show we're serious about finding a sensible solutions in addition to stopping his crazy one," says Reed, now president of the centrist Democratic Leadership Council. "I don't think Bush can pull this off, but the best way to stop Bush from passing a bad plan is to point out what's wrong with it and show what a good plan would look like."

16. Bush has promised to give G.O.P. lawmakers the cover they need by spelling out the specifics of his plan and then generating so much public support that opposing it will be the risky position. "I have an obligation to lead on this issue," the President told the Wall Street Journal last week. The President had better be prepared to offer additional reassurance when House and Senate Republicans hold a retreat in West Virginia next weekend, says House G.O.P. conference chairwomen leadership have impressed on him [that] the members of Congress are his most important audience right now. It's not an easy lift." Republican lawmakers have also told their leaders that the best cover would be a respectable number of Democrats willing to join with them as they jump off the cliff.

17. That would take nothing short of a public ground swell, which is why Bush plans to return to many of the techniques that got him reelected. The Republican National Committee is putting together a war room on the issue, organizing workshops and town halls around the country, placing advocates on regional radio and deploying a rapid response team in Washington. Bush is also counting on outside organizations. Moore, for instance, is starting a new one called Free Enterprise Fund, with backing from conservatives on Wall Street and in business. A group called Progress for America, which has close ties to Bush political guru Karl Rove, went on the air last week with its first television ad, comparing Bush to F.D.R. Democrats quickly circulated a blistering demand by Roosevelt's grandson James Roosevelt Jr. that the group quit using his grandfather's image: "To compare the courage it took to provide a guaranteed insurance program for our seniors and the disabled to the courage it will take to dismantle most successful social program in history is simply unconscionable."

18. One of the most crucial interest groups will be Wall Street. But where, precisely, is its interest? The general assumption has been that investment firms stand to gain a windfall from money that would flow into the new accounts. At the other end of the Street, the bond market could turn thumbs down on the grounds that trillions in new government borrowing would hurt the economy, raise interest rates and make the dollar suffer. But both assumptions may be overblown, financial experts say. Though University of Chicago economist Austan Goolsbee has estimated that

the financial-services industry could reap \$940 billion in fees over the next 75 years from private accounts -- real money, even by Wall Street standards -- some firms say he accounts -- some firms say the accounts look more like a headache than a bonaza. "Wall Street is at best ambivalent. The size of the accounts is nothing big," says Robert Pozen, chairman of MFS Investment Management. "How many Wall Street firms do you know that are running after people with \$5000 accounts?"

19. At the same time, the bond market may not be an obstacle. Snow heard caution but little naysaying when he made a pilgrimage to Wall Street last week. In a meeting on Tuesday with bond traders, he explained that the government might have to borrow \$100 billion to \$150 billion a year for 10 years to finance the new private accounts. Participants say the traders told Snow that the markets could easily absorb that much. As a bond executive said, "Mr. Secretary, that's a rounding error in our business."

20. The most ardent Republican supporters of private savings accounts say that Bush, having decided to take the plunge, should go all the way. He's expected to propose allowing workers to put one-third of the 6.2% payroll tax that is deducted from their paychecks into individual accounts. But advocates like Gingrich and antitax activist Grover Norquist want to know, Why not more? "It's going to take exactly the same amount of energy," Gingrich says. "You are better off trying to get the largest possible account." However big the plan, Bush recognizes that the

politics inside his party are daunting. "Part of my effort," he told Time has month.

"is going to have to be to convince [Republicans] that taking it on is the right thing to do." But that might bee easy for Bush to say. He doesn' t have to run again.

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