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Personal Accounts Could Hasten Social Security Shortfall, GAO Finds

by Steven Thomma

WASHINGTON -- Private investment accounts such as those President Bush endorses not only will not save Social Security, but they also could accelerate the retirement system's financial problems, a nonpartisan government official told Congress Wednesday.

The testimony by Comptroller General David Walker, head of the Government Accountability Office - a congressional watchdog agency - encouraged Democrats, who want Bush to drop his proposal for new personal accounts before they negotiate any plan to fix Social Security's long-term solvency shortfall.

But Walker also said that the impact that private accounts would have on Social Security would depend entirely on how they're funded and what other steps are taken - such as pension-benefit cuts or tax increases - to shore up the system's long-term solvency. The GAO chief also said that action is needed soon to address the system's solvency problem before it worsens.

"Social Security does not face an immediate crisis, but it does face a large and growing problem," Walker told the House Ways and Means Committee in its first hearing this year on problems facing the national pension system.

Bush has made changing Social Security his highest second-term domestic priority and is campaigning hard to sell his vision of new private investment accounts to a skeptical country. Polls show public opinion turning away from Bush's approach, and in Congress, Democrats are virtually united in opposition while Republicans are split.

Meanwhile, Social Security's financial problems will get harder to solve as the baby boom generation - those born from 1946-64 - starts retiring and as the government confronts other, larger problems, such as finding ways to pay for Medicare. "It would be prudent to act sooner rather than later," Walker said.

Absent any concrete proposals to deal with the system's solvency problem, the committee focused instead on the one proposal that Bush has made - to allow those born in 1950 or later to divert some of their Social Security taxes into private investment accounts.

Pressed by Democrats to say whether such accounts would help or hurt Social Security, Walker hedged: "It depends on how they're structured."

They wouldn't shore up the system, he said, if they were financed, or "carved out," from current Social Security taxes, as Bush proposes, and accompanied by no other changes. By themselves, he said, such private accounts would "exacerbate" the system's problems and accelerate the date for when it would start spending more on pension benefits than it receives in annual revenue.

"I hope everyone takes note of what you said. I just hope the world hears you," said Rep. Sander Levin, D-Mich.

Levin and other Democrats insisted that Bush should drop his proposal for private accounts before they negotiate to save Social Security.

"Private accounts cannot be on the table if you are looking for bipartisanship," said Rep. Charles Rangel, D-NY., the panel's senior Democrat.

Rep. Jim McCrery, R-La., the chairman of the panel's Social Security subcommittee, said Walker was "just dead wrong" and that private accounts, if coupled with benefit cuts, "can in fact solve the problems of Social Security."

He said it would be "counterproductive" for Bush to rule out private accounts and urged Democrats to drop their demand that the accounts be dropped.

"Stop this nonsense," McCrery said. "I hope we will all calm down."



Walker both lauded Bush for starting the debate and criticized him for focusing entirely on private accounts.

"The president's right in saying we need to solve the problem," Walker said, adding later: "I would have done it differently."

For the full text of Walker's written testimony, go to www.gao.gov.

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