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# Beware the Easy Fix for Social Security

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WASHINGTON

PRESIDENT BUSH has yet to offer a specific plan for overhauling Social Security, but the war over numbers has already become surreal.

To hear White House officials tell it, the ideas he has outlined would save trillions of dollars and leave everyone a winner. The scene they describe is something like Lake Wobegon, where all the children are above average: everyone who retires in 2050 would end up with more money than today's system could afford to pay. To hear Democratic critics tell it, Mr. Bush would eventually cut benefits for most people by thousands of dollars a year - even though he would allow today's benefits to rise at least as fast as inflation.

Most analysts on both sides say Mr. Bush's approach would solve less of the problem than he claims. Indeed, as House Republicans began hearings last week to debate alternatives, neither Mr. Bush nor his critics fully addressed how they would pay for benefits that, according to the Social Security trustees, will probably not be affordable under the current system.

Mr. Bush has embraced "progressive price indexing" - a concept that would slow the growth of benefits for middle- and upper-income people. Developed by Robert C. Pozen, the chairman of MFS Investment Management in Boston, the idea would be to increase benefits for middle- and upper-income retirees in line with consumer prices rather than wages. Because wages have increased about one percentage point faster than prices each year, Social Security benefits would gradually replace a smaller and smaller share of wages for all but the lowest 30 percent of income earners.

While Mr. Bush has alluded only vaguely to the idea, White House officials have promoted it in considerable detail. According to one White House chart, people at every income level appear to end up winners.

Middle-income workers, for example, those with average annual earnings of \$36,000 today, would receive about \$1,380 a month in today's dollars - about \$172 more than today's system could afford to pay - if they retired in 2050.

Even high-income workers, whose benefits would be trimmed the most, would end up with \$1,626 a month, about \$100 more than today's system could afford. "All earnings groups in 2050 would receive higher benefits

than the current program can afford to pay," the White House declared in a briefing paper.

But as Mr. Bush's critics quickly pointed out, the happy outlook omitted two major points. The first is that, under Mr. Bush's cuts, Social Security would still not be able to afford all the benefits being promised. The second is that the comparisons look favorable only for people who retire within a few years of 2050.

Using projections by the Social Security trustees, White House officials based their comparison on the assumption that, if nothing changed, the Social Security trust fund would be out of reserves in 2041. At that point, Social Security would be allowed to pay out only as much as it took in through payroll taxes and would have to cut total benefits by about 27 percent.

The problem is that Mr. Bush's plan would not keep Social Security from running out of money. An apples-to-apples comparison would have to take into account that the government would eventually need to cut benefits or raise taxes even if the government did adopt progressive price indexing.

White House officials contend that the changes Mr. Bush has outlined would close about 70 percent of the long-term deficit, but most analysts say the changes would eliminate less than 60 percent.

Jason Furman, an economist at New York University and at the Center on Budget and Policy Priorities, a liberal research group, estimated that the plan would close only about 59 percent of the shortfall expected over the next 75 years. The projected insolvency would be delayed by only six years, to 2047.

At that point, he estimated, the government would have to reduce benefits by an additional 15 percent.

Kent Smetters, a former Treasury official under President Bush and now an associate professor at the Wharton School of Business, came up with similar estimates about the impact of progressive price indexing.

Mr. Smetters noted that Mr. Pozen's original plan would have gradually trimmed disability benefits and would have closed about 70 percent of the shortfall. But Mr. Bush has vowed to preserve disability benefits at current levels, and to ensure that even low-income retirees are kept above the poverty line.

"I would say it solves about 60 percent, or a little less" of the projected deficit, Mr. Smetters said in an interview.

White House officials do not dispute those estimates, but they have redefined the problem. Instead of saying they would solve 70 percent of the 75-year deficit, the measure most analysts use, administration officials say the plan would reduce about 70 percent of the deficit in the 75th year of their plan. The difference is worth about \$500 billion over 75 years.

"The real question is how close you are to getting the system back to positive cash flow by the final year," said Andrew G. Biggs, deputy director of Mr. Bush's National Economic Council. "How much of the final-year deficit does it eliminate? By that measure the plan closes about 70 percent of the deficit."

The White House also shined up its estimates by comparing benefits for a single year, 2050. If the trust fund

became insolvent as projected, benefits for a middle-income worker in 2050 would be only \$1,208 a month. Benefits under Mr. Bush's plan would be \$1,380, or \$1,532 if the person had a personal account that earned higher returns.

But the comparison is misleading. Mr. Bush's cuts would begin in 2012, whereas people would be claiming full benefits through 2040 if there were no changes in Social Security.

DEMOCRATIC lawmakers are rolling out their own calculations. On Thursday, Senator Charles E. Schumer of New York posted a calculator on his Web site, [www.schumer.senate.gov](http://www.schumer.senate.gov), that allows people to estimate their own benefits under the Bush plan.

Under that measure, a person who earns about \$50,000 today and retires in 2040 would receive benefits in that year that are 25 percent, or \$6,596, lower than promised under today's formula.

But the Schumer calculations do not account for the projected insolvency of the trust fund in 2041. Because Social Security's trustees project a 27 percent shortfall if nothing is done to stabilize the system, that same person's benefits would drop by \$7,250 in the second year of his retirement.

C. Eugene Steuerle, a senior fellow at the Urban Institute who worked in the Treasury Department in the Reagan administration, summed up what neither side wanted to say.

"One way or another, somebody's going to have to pay," Mr. Steuerle told the House Ways and Means Committee on Thursday. "I'm guessing it will be the middle class and the upper class."

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