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Push for private accounts faces obstacles *Political, economic hurdles may make change a tough sell for president*

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Now, President Bush gets to be Mr. Fix-it.

After his re-election, the president said rescuing Social Security from impending insolvency would be a top priority. And one of his tools for fixing the nation's retirement plan could be controversial private investment accounts.

Experts say the president's toolbox should include a magic wand: He will need a mystical touch to overcome economic and political obstacles.

"I do not know how you get from here to there," said Bob Bixby, the executive director of the nonpartisan Concord Coalition, which monitors Social Security.

For starters, experts said, Mr. Bush must cultivate a bipartisan coalition if he is to win public support. That means corralling reluctant Republicans

who fear the political dangers of tampering with Social Security and Democrats who oppose private accounts.

"For something this big and earth-shattering ... I think there will need to be a debate for a lengthy period of time before a consensus forms," said Gregg Valliere, an analyst with the Washington research unit of Houston-based Stanford Group Co., a financial management firm.

Winning over Democrats - a political necessity in the Senate, where Republicans will be five votes short of the 60-vote majority needed to end a filibuster - will be tough.

Many Democrats oppose private accounts, and their House leaders have threatened to punish the rank-and-file supporting the president's proposals. And Democrats who were supportive are leaving,

including retiring Sen. John Breaux of Louisiana and Rep. Charlie Stenholm of Abilene, one of four Texans who lost their seats after the Legislature redrew their districts.

And then there is the math. Experts estimate it would take up to \$2 trillion over 10 years to fund private accounts. The money would be required to pay current Social Security benefits as payroll taxes are diverted into the new accounts.

Unless taxes are raised or federal spending is cut, the federal debt would grow as the government borrowed money to pay the transition costs.

Pessimism about system

William Taylor, a 31-year-old financial adviser at Carter Financial Management in Dallas, hopes the

president can overcome those obstacles.

"I assume zero from Social Security," said Mr. Taylor, who shares the view of many in his generation that the nation's retirement system will go bust. "Do I want to rely on that? No way."

Mr. Taylor, a Republican, may be overly pessimistic. Even in a worst-case scenario, Social Security is expected to pay some benefits. But Mr. Taylor is among a generation of younger workers who will be most affected and are likely to pay higher taxes and receive fewer benefits.

Current retirees and workers near retirement are unlikely to be affected by reform proposals.

Mr. Taylor started saving for his retirement at age 23 after he graduated from college. He has a Roth IRA and a Simplified Employee Pension, or SEP, a retirement plan for the self-employed.

He likes controlling his money, another reason

he favors private accounts.

"I would rather look at a statement and say, 'These dollars are mine,' instead of giving the money to the government and saying, 'I hope you take care of me in 30 years,'" Mr. Taylor said.

Without changes, Social Security will be unable to fulfill that promise. As the 77-million-person baby boom generation begins retiring in a little more than three years, the nation's retirement system is expected to become overwhelmed.

Long-term shortfall

Experts estimate the retirement system's long-term shortfall could be \$11 trillion or more.

Social Security is scheduled to begin paying out more in benefits than it collects in taxes in 2018. And by 2042, the system is expected to be technically insolvent, meaning it would only have enough income to pay 73 percent of promised benefits.

Experts have urged

lawmakers to deal with the projected insolvency for years. And now, the task is tougher than just four years ago because the budget surplus was eaten up by the recession, new government spending and tax cuts.

"In this budget environment, it becomes more difficult," said Matt Moore, a senior policy analyst at the National Center for Policy Analysis, a conservative Dallas think tank.

Many analysts contend any rescue would have to include tax increases and benefit reductions, such as penalizing early retirees, increasing the retirement age or limiting cost-of-living adjustments. Private accounts would make those steps more likely.

So far, the president has not made a specific proposal.

But he is expected to embrace the principles included in the 2001 report of the President's Commission to Strengthen Social Security. That report

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included a plan that would allow workers under age 55 to voluntarily divert about 2 percentage points of the 12.4 percent payroll tax into private accounts.

Seeking solutions

A variety of think tanks and lawmakers are busy fashioning proposals they hope will win favor with the White House.

None would replace today's government system that began sending monthly checks in 1940 as part of Franklin Roosevelt's New Deal and today provides benefits to 47 million Americans. Most reform proposals envision a hybrid program that includes private accounts but maintains government benefits.

The Dallas group is working with Thomas Savings, director of the Private Enterprise Research Center at Texas A&M University, to develop a plan that it hopes meets the president's objectives.

"Private accounts fix the problem

permanently," said Mr. Savings, who served on the president's commission.

Under the plan, workers under age 55 would have the option of participating in private accounts. To minimize risk, the money would be pooled in funds similar to mutual funds that invest in a broad basket of securities that track stock market performance.

There would be a catch. Participants could not get more money than they would have otherwise received through Social Security. Any excess earnings would be captured by the government and used to plug Social Security's \$11 trillion shortfall.

So what incentive would savers have to use private accounts?

Mr. Moore said it is the promise that private accounts will save Social Security and prevent drastic reductions in

benefits.

"If we try to maintain the current system, we will have to cut benefits," he said.

There are other variations.

One would ask younger workers to contribute another 1 to 1.5 percentage points of income to fund private accounts. And another by Sen. John Sununu, R-N.H., would pay for the transition to private accounts by limiting the annual growth of government spending to 3.6 percent for eight years, rather than the projected 4.6 percent.

Too risky?

Peter Orszag, a senior fellow at the nonpartisan Brookings Institution, said relying on future stock market returns or cuts in government spending are risky and would transfer Social Security obligations to future generations as big debts.

"That means the proposal is really a shell game," Mr. Orszag said.

Critics also argue that

private accounts such as IRAs and 401(k) plans should supplement Social Security, not replace it. They said Social Security should remain a guaranteed safety net, one that has rescued millions of seniors from poverty.

With those criticisms in mind, proponents of private accounts often include a safety net feature in their proposals. For instance, **the Dallas think tank's plan would guarantee an annual benefit of 150 percent of the poverty level, currently \$13,200, compared with Social Security's average annual benefit of \$11,064.**

If past stock market performance holds true, advocates contend, private accounts would yield higher returns than traditional Social Security over the course of a working career. Mr. Moore points to a Texas A&M analysis that shows a portfolio tracking the Standard & Poor's 500 index over any 35-year period between 1872 and

2000 provided an average annual inflation-adjusted return of 6.4 percent.

Even so, critics warn, workers on the eve of retirement might be vulnerable to a sudden and drastic stock market drop. That happened when the 1990s bull market ended. Between mid-2000 and mid-2002, the S&P 500 lost about 50 percent of its value, or some \$6 trillion in assets.

Those concerns are on the mind of David Wilkins, a 27-year-old former Dallas junior high school teacher. He is president of the Dallas County Young Democrats and was a campaign field coordinator in Oklahoma during the election.

"My money is not going into an account for me," Mr. Wilkins said. "My money is going to pay my grandmother right now. If they put that money into an account for me, that's great for me, but how would they pay my grandmother?"

Despite his reservations about reforms, Mr. Wilkins is skeptical that

Social Security will be around when he retires. Even so, he has not started saving for retirement.

"Social Security is broke, and it needs to be fixed," he said.

Instead of private accounts, Mr. Wilkins favors repealing Mr. Bush's tax cuts for upper-income earners. He is angry "that we had the opportunity four years ago to secure Social Security for the rest of my life, and we squandered it. We had a massive budget surplus."