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Most G.O.P. Plans to Remake Social Security Involve Deep Cuts to Tomorrow's Retirees

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WASHINGTON, Dec. 13 -- As President Bush gears up for a major public push to overhaul Social Security, he has focused almost all his rhetorical energy on the need to let people divert some of their taxes to private retirement accounts.

But nearly every leading Republican proposal on Capitol Hill acknowledges that private accounts by themselves do little to solve the system's projected shortfall of at least $3.5 trillion. Instead, those proposals rely on deep cuts in benefits to future retirees.

That uncomfortable political truth was driven home on Monday by the head of the investigative arm of Congress.

''The creation of private accounts for Social Security will not deal with the solvency and sustainability of the Social Security fund,'' that official, David M. Walker, comptroller general of the Government Accountability Office, said in a speech on Monday.

Or, as Thomas Saving, a Republican-appointed trustee to the Social Security trust fund put it last week: ''Fundamentally, if you don't reduce the benefits, you don't reduce the debt.''

Some of the Republican proposals would raise the age when people can start to receive benefits. Others would reduce payments to beneficiaries to account for longer life expectancies. Still others would reduce payments to married couples and scale back the annual increases that are made to keep pace with inflation.

But the biggest single idea is included in the plan the White House most often points to, abandoning the practice of setting benefits as a share of people's pre-retirement earnings.

Analysts affiliated with both political parties say that that one change could save more than $10 trillion over the next 75 years, more than enough to wipe out Social Security's projected shortfall. People retiring today or even in the next 10 years would feel almost no impact.

But in decades to come, analysts say, many people would see sharper drops in their incomes when they retired. And because benefits would not keep up with wages, many retirees could feel steadily poorer compared with neighbors who still work.

Mr. Bush, who is likely to step up his call for private accounts when he acts as host of a two-day conference on the economy this week, has steadfastly avoided any reference to cutting future benefits. Instead, he has repeated a two-part message, that Social Security faces a financial crisis, and that people should be allowed to put some of their payroll taxes into private accounts and earn higher returns by investing in stocks.

''This is more than a problem to be solved,'' Mr. Bush declared during the election campaign. ''It's an opportunity to help millions of our fellow citizens find the security and independence of ownership.''

To drive that point home this week, White House officials scheduled a single mother from Iowa, Sandy Jaques, to speak on the advantages that private accounts could offer to divorced spouses and widows.

But White House officials have begun to acknowledge what many conservatives take as a given; that is, with or without personal accounts, future Social Security benefits must be scaled back.

''Sacrifice is built into the system already,'' Joshua B. Bolten director of the Office of Management and Budget, said in a meeting with reporters last week. ''The one thing I can say for sure is that if left unattended, the system will be unable to make good on its promises.''

Those comments echo a recent warning by N. Gregory Mankiw, chairman of the White House Council of Economic Advisers, that there ''is no free lunch'' and that the benefits promised today are ''unfeasible'' for the future.

Because Mr. Bush has yet to spell out any details of how he would overhaul the system, his stated principles sound like a free lunch: benefits for people at or near retirement should not go down; taxes should not go up; people who do not want private accounts should be able to keep drawing benefits.

The leading Republican proposals, at first glance, sound even better. Benefits could actually be higher than before for low-income people, widows and divorced spouses. On top of all that, Social Security's looming shortfalls, estimated variously from $3.5 trillion to $10.4 trillion, would be wiped out.

But most of the Republican proposals would also reduce the role of Social Security as a source of guaranteed retirement income, slowly but surely.

The simplest cut is the one developed by Mr. Bush's advisory commission on Social Security in 2001. That proposal, which White House officials often cite as a model for how the system could be changed, would change the way future benefits are calculated.

Instead of setting benefits as a share of a person's pre-retirement wages -- about 42 percent, for a middle-income worker today -- the government would link future benefits to inflation.

Because wages generally rise faster than inflation, analysts say the savings could total more than $10 trillion and would wipe out the entire projected deficit for Social Security in one easy move.

''If you just switched from wage-indexing to price-indexing, you would save so much money over that period you would actually wipe out the entire imbalance,'' said Kent Smetters, an associate professor at the Wharton School of Business who worked on entitlement issues in the Bush Treasury Department.

But many analysts contend that the change could also leave future workers with a huge drop in income as soon as they retire and would erode a basic premise of the current old-age system.

Under today's law, a middle-income worker who retires in 2065 would be entitled to an annual Social Security benefit of $26,400, or about 40 percent of the worker's wages.

Under the proposed change, that same worker's benefit in 2065 would decrease by 40 percent to $14,600, about 22 percent of the wages. That prospect troubles many experts, including some conservatives.

''What people are forgetting is why the system is there in the first place,'' said John Goodman, director of the National Center for Policy Analysis, a conservative research group that strongly supports private accounts. ''The reason is that people don't want to reach retirement age and have their standard of living cut in half. If you use price-indexing, you won't be keeping up with your neighbors.''

Critics of the administration contend that Mr. Bush is using the tangible allure of personal accounts to mask a profound reduction in the government's main safety net for the elderly.

''They are using smoke and mirrors in the sense that they are cutting taxes in the here and now and making cuts way off in the future,'' said Laurence J. Kotlikoff, a professor of economics at Boston University who has written extensively on the long-term financial problems of Social Security and Medicare. ''What I see them doing is very gradually wiping out the old system, and putting something very minor in its place.''

Democratic lawmakers say the problems in Social Security can be fixed with modest changes that would be phased in slowly. Lifting the ceiling on payroll taxes, which are capped when a person earns more than $87,900, would fill much of the gap. Pushing back the normal retirement age, which is already set to shift from 65 to 67, would reduce the deficit even more.

''If the president pulled all sides into a room and put everything on the table, we could solve this problem very quickly,'' said Representative Robert T. Matsui, Democrat of California.

Mr. Bush's own advisory commission in 2001 made it clear that personal accounts would make little dent in the underlying shortfall.

If the government kept Social Security benefits as they are now, and let people set up private accounts as well, the government would still face a shortfall of more than $4 trillion over the next 75 years.

Some Republicans suggest that a free lunch may indeed be possible. Representative Paul D. Ryan of Wisconsin and Senator John E. Sununu of New Hampshire have proposed a bill they say would eliminate the projected shortfall without reducing future benefits or imposing new taxes.

In contrast to most other proposals, which would not allow people to divert more than about $1,000 in taxes a year to personal accounts, Mr. Sununu and Mr. Ryan would let people divert almost all their Social Security taxes to private accounts.

''What we learned was that with these large accounts you produce such large surpluses that you don't need to cut back on benefits,'' Mr. Ryan said.

But many analysts are skeptical. The key to the plan is a premise that total government spending on all programs would grow by 3.6 percent a year for the next eight years.

That would be extremely difficult. More than two-thirds of the federal budget is locked up in mandatory entitlement programs, mainly Social Security and Medicare. Any cuts there would violate Mr. Bush's pledge to protect people who are at or near retirement.

An additional 20 percent of the budget goes to domestic security and the military, which have ballooned under Mr. Bush, and with no end in sight to the war in Iraq, are expected to keep climbing.

''The plan is really based on the assumption that budget restraint will fill the hole in Social Security, and that is a doubtful assumption,'' said Peter R. Orzsag, a senior fellow at the Brookings Institution who was a Clinton administration official.

Given the difficulties, some Republicans say they have to consider tax increases. Senator Lindsey Graham of South Carolina, a longtime champion of private savings accounts, recently broke with the Bush administration and proposed raising the ceiling on payroll taxes for high-income workers.

''The bottom line is that there should be no Band-Aid solutions, no more kick-the-can-down the road,'' Mr. Graham said. ''If anybody else can come up with a better way to achieve solvency, I am all for it.''

Chart: ''Tradeoffs on Social Security''

President Bush has not yet put forth a detailed proposal to create private accounts in Social Security, but one plan suggested by his commission on the issue three years ago would scale back benefits that future retirees could expect, even with the new personal accounts.

How one plan would work

Main elements of a proposal by Mr. Bushfs 2001 Social Security commission.

Would allow workers to divert 4 percent of their payroll taxes up to $1,000 into a private account.

Would reduce workers' traditional benefits by roughly the amount diverted into the accounts.

Would curtail future increases in benefits by tying them to the change in prices, not in real wages, which tend to rise more quickly.

Would soften the reductions with special provisions for low-income workers and widowed spouses.

How the plan would affect benefits

Figures below are calculated for a middle-income worker.

Decade born: 1940's

Estimated benefits in the first year of retirement

Under current law: $14,900

Under the plan, including private accounts: 14,900

Estimated first-year benefits as a share of income when working

Under current law: 42.9%

Under the plan, including private accounts: 42.8

Decade born: 1950's

Estimated benefits in the first year of retirement

Under current law: 15,200

Under the plan, including private accounts: 14,100

Estimated first-year benefits as a share of income when working

Under current law: 43.0

Under the plan, including private accounts: 39.9

Decade born: 1960's

Estimated benefits in the first year of retirement

Under current law: 15,500

Under the plan, including private accounts: 13,100

Estimated first-year benefits as a share of income when working

Under current law: 41.0

Under the plan, including private accounts: 34.8

Decade born: 1970's

Estimated benefits in the first year of retirement

Under current law: 17,700

Under the plan, including private accounts: 13,600

Estimated first-year benefits as a share of income when working

Under current law: 40.5

Under the plan, including private accounts: 30.9

Decade born: 1980's

Estimated benefits in the first year of retirement

Under current law: 20,500

Under the plan, including private accounts: 14,300

Estimated first-year benefits as a share of income when working

Under current law: 39.8

Under the plan, including private accounts: 27.4

Decade born: 1990's

Estimated benefits in the first year of retirement

Under current law: 23,300

Under the plan, including private accounts: 14,500

Estimated first-year benefits as a share of income when working

Under current law: 39.5

Under the plan, including private accounts: 24.6

Decade born: 2000's

Estimated benefits in the first year of retirement

Under current law: 26,400

Under the plan, including private accounts: 14,600

Estimated first-year benefits as a share of income when working

Under current law: 39.6

Under the plan, including private accounts: 21.7

(Source by Congressional Budget Office)

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