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Competing Visions For Social Security

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President Bush's push to restructure Social Security has thrust private investment accounts to the front of the political debate, but dozens of alternative approaches to Social Security's problems have been proposed -- and many of them are receiving a second look as Congress grapples with the issue.

At its heart, Social Security's future financial shortfall is a basic math problem: The benefits owed over the next 75 years are $3.7 trillion greater than what it will have collected to make those payments. But how economists propose to solve that problem has had more to do with their vision of the nation's largest social insurance system than mathematics. A straightforward solution could be to raise the current payroll tax by less than 2 percentage points or cut benefits by 13 percent. Either would solve the problem through 2080. Similarly, if the limit on wages taxed for Social Security, currently $90,000, were lifted altogether, the system would be kept fully solvent until 2077, according to the Social Security Administration's chief actuary.

But out of political pragmatism, those who hope to preserve a basic structure established by Franklin D. Roosevelt -- mainly Democrats -- have obscured both tax increases and benefit cuts, using a variety of mechanisms that make the proposals remarkably complex. Even with such tactics, the Democratic proposals have yet to catch fire among politicians, who fear that the most head-on approach would be the most politically treacherous.

Conservatives, meanwhile, want to fundamentally change the system from the current model, in which taxes come in and benefits go out according to set formulas, toward a "forward-funded" system, in which benefits increasingly would be a product of savings and investment returns.

"If we succeed in reforming Social Security, it will rank as one of the most significant conservative governing achievements ever," White House political aide Peter H. Wehner wrote in an e-mail to supporters last month.

In between are hybrid proposals that include modest private accounts to satisfy conservatives but maintain a basic Social Security benefit, tilted to help the poor and most vulnerable, to appeal to liberals. It is in this pragmatic center that a bipartisan solution is likely to be found, said Rep. E. Clay Shaw Jr. (R-Fla.), a former chairman of the House Ways and Means Committee's Social Security subcommittee.

"I think a compromise can be reached," Shaw said. "We need to establish our principles . . . then look at all the alternatives."

The Liberal Approach

Democrats and liberal economists have focused on bringing Social Security's finances into line without fundamentally altering the system. But their formal proposals would not simply raise taxes and reduce benefits. One prominent Democratic plan, proposed by Massachusetts Institute of Technology economist Peter A. Diamond and Brookings Institution economist Peter R. Orszag, would use a nine-stage battery of revenue-raisers and benefit reductions to produce a Social Security system that would be both in balance and more generous for poor workers, widows, the disabled and children who survive the death of their parents.

"It was designed by looking at particular sources of imbalance that seemed to us worth addressing," Diamond said.

Under the plan, all new state and local government workers would be brought into the Social Security system, effectively expanding the Social Security tax base to cover the 25 percent of government workers who now are exempt. Diamond and Orszag would also raise the cap on wages subject to payroll taxes to about $105,000 for now.

To raise more revenue, they would impose a 3 percent tax on all earnings above the cap. They would also slowly raise the current 12.4 percent Social Security tax rate to 14.2 percent in 2055. Benefits would be cut, on a scale that starts with trims of only 0.6 percent for a worker currently 45 years old but rising to 8.6 percent for a future retiree who is now 25. And under a complex formula, cuts would hit more affluent retirees the hardest, while benefits for low-wage workers would rise.

The approach would put Social Security's finances on a sound path immediately, obviating the need for government borrowing inherent in Bush's private-accounts approach, but so far it has been politically unattractive on Capitol Hill.

More attractive has been the ultimate "tinkerer" plan from Robert M. Ball, a former Social Security commissioner. Rep. David R. Obey (Wis.), the ranking Democrat on the House Appropriations Committee, has made Ball's plan his own, and its nip-and-tuck approach to the problem has influenced the stance of AARP, the powerful retirees' lobby.

Ball would take four initial steps: lift the cap on taxable wages to 90 percent of all earnings, or about $145,000; slow annual cost-of-living benefit adjustments; cover newly hired state and local government workers; and dedicate all inheritance taxes levied on estates worth more than $3.5 million to Social Security.

Those steps would ensure full Social Security benefits through 2078, the Social Security actuary concluded. If funds should fall short, Ball would fill the gap through slight increases in payroll tax rates.

The Conservative Response

The real passion for changing Social Security comes from conservatives, who believe the bigger the change the better. "I don't see an excited middle right now. I see a reluctant [Republican] leadership and activists pushing them," said Michael Tanner of the libertarian Cato Institute.

The ultimate private-account plan belongs to Peter J. Ferrara, a longtime advocate of Social Security's partial privatization. Under Ferrara's approach, adopted by Sen. John E. Sununu (R-N.H.) and Rep. Paul Ryan (R-Wis.), and also by such activists as former House speaker Newt Gingrich and conservative organizer Grover Norquist, personal accounts would average 6.4 percentage points of the 12.4 percent Social Security tax, considerably larger than Bush's proposed 4 percentage-point diversion.

Like the Bush proposal, Ferrara would offset contributions to voluntary private accounts with equal cuts to workers' base Social Security benefit -- what workers see as a monthly, guaranteed check. But under Ferrara's plan, the accounts would be so big that participating workers beginning their careers this year could expect to have no basic Social Security benefit left by retirement, according to a Social Security actuarial analysis.

On the plus side, Ferrara says, the accounts would grow so quickly that they would more than make up for the lost benefit, disputing a contention shared by the White House that personal accounts alone cannot solve Social Security's problems. On the downside, the accounts would cost nearly $7 trillion over 75 years, almost twice Social Security's cash deficit over that period. That's because diverting such a large percentage of payroll taxes to private accounts for future retirees would leave the government short of the cash it needs to pay current beneficiaries.

Ferrara said much of that cost would be met by cuts in government spending and added tax collection buoyed by the plan's impact on corporate profit growth.

There are any number of other iterations. In the mid-1990s, Federal Reserve Board Governor Edward M. Gramlich embraced a compromise proposal to reduce the growth of benefits by setting the retirement age at 67, then raising it as longevity increased. On top of that, workers would have to contribute an additional 1.6 percent of their wages subject to the Social Security tax into private accounts -- an "add-on" to the base Social Security system to supplement a trimmed-down benefit. Such an add-on approach is rapidly becoming a Democratic party line.

"At some point, if we need votes on other side of aisle, we will have to look at which [plan] would the Democrats reach out to," said Shaw, who has his own add-on proposal. "And clearly, it's an add-on."

Robert Pozen, a Massachusetts financial executive who served on Bush's Social Security Commission, has proposed his own compromise. Like the president, he would carve private accounts out of the payroll tax, but he would limit their size to 2 percent of taxable earnings, considerably reducing government borrowing. To answer Democratic concerns, he would structure benefit cuts to hit the affluent the hardest, while shielding poorer workers from any cuts at all.

Another partial solution? Immigration. The United States could shave 10 percent off the projected $3.7 trillion gap between Social Security taxes to be paid and benefits already promised simply by allowing 264,000 additional immigrants into the country legally in each of the next 50 years, according to a study released this week by the **National Foundation for American Policy**, a pro-immigration group.