UNTANGLING THE DEBATE ON SOCIAL SECURITY

By RICHARD W. STEVENSON

WASHINGTON — PRESIDENT BUSH has put an overhaul of Social Security at the top of his domestic priority list, proposing that workers be allowed to divert part of their payroll taxes into private accounts that could be invested in stocks and bonds.

In doing so, he has ignited what is shaping up to be the most intensive partisan battle of the year. It can also be migraine-inducing in its complexity. Take two aspirin and study the following.

Q. People are throwing around doomsday years for Social Security. Is it really running out of money?

A. Not any time soon. The system currently takes in far more in payroll taxes than it needs to pay benefits, and will keep doing so for years to come.

But eventually there will be a problem. People are living longer and baby boomers will start reaching retirement age soon, so the financial strains on the system are set to grow very sharply.

The first date to care about is 2018, when Social Security will probably begin paying out more than it takes in. But experts at the Social Security Administration have calculated that the system, by drawing on a trust fund that, on paper, is the recipient of today's surpluses, will be able to keep paying full promised benefits for another 24 years after that, until 2042.

The trust fund, though, is not cash in a bank. Successive Congresses and administrations have used the money to pay for general government spending, leaving the fund with nothing more than a promise to pay it back eventually. To make good on that promise, the government will have to reduce other spending, raise taxes or borrow more money.

Q. Would Mr. Bush's plan for private accounts solve that problem?

A. By itself, probably not, though some Republicans say that if the accounts are large enough, their returns might wipe away the problem.

The White House is already signaling that it is also likely to embrace a substantial reduction in the growth of guaranteed benefits for future retirees, a position many Democrats are attacking and many Republicans are distancing themselves from.

Advocates of the personal accounts say that because stocks and bonds have historically generated attractive returns, workers will be able to build tidy nest eggs in the accounts, more than making up for reductions in benefits. But...
setting them up could entail hundreds of billions or even trillions of dollars in new government borrowing, a prospect that many economists think will upset the financial markets.

Q. Will Americans be better off under the new system?

A. No one can say for certain. Because stock and bond markets can fluctuate a great deal from year to year, even though they have yielded reliable gains over the long run, people could do much better or much worse than average, depending on when they happen to retire. And there is no guarantee that historical market trends will hold true in coming decades.

White House officials argue that, at least for younger workers and succeeding generations, the new proposals should be compared not with what the current system promises in benefits for future retirees, but with what the system will be able to pay after the trust fund runs out. Remember those annual statements you get in the mail from Social Security telling you how much you will receive in benefits when you retire? According to Social Security's actuaries, after 2042, if no changes are made to the system, Americans will get less than three-quarters of what has been promised to them.

Q. Social Security is supposed to be the "third rail" of politics, fatal to those who tamper with it. What has changed?

A. Maybe nothing. President Bush has run and won twice on platforms calling for establishing personal investment accounts. His advisers are confident that Americans are open to change and that younger workers in particular are eager for the chance to invest some Social Security taxes in stocks and bonds.

But now that it is becoming clear that Mr. Bush's plan will probably include cuts in scheduled benefits and large-scale government borrowing, the politics are getting complicated. Overwhelmingly, Democrats are lining up to oppose Mr. Bush. Republicans in Congress, especially in the House, are reluctant to proceed without lots of cover from the White House and at least a veneer of bipartisanship. Mr. Bush could win a big victory, but he could also get a nasty jolt.