



Democrat Key to Bush Social Security Push

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A registered Democrat, Robert Pozen has little to gain politically from the Social Security solvency plan that he drafted and that now is heralded by President Bush, whom the former Massachusetts economic development chief voted against in November. Nonetheless, Pozen has become a favorite witness at congressional hearings, promoting his idea of "progressive indexing" for future benefits.

At age 58, Pozen has no personal stake in the current Social Security debate because neither President Bush nor Congress has advocated changing the existing system for workers over 55.

It's a fair bet, too, that Pozen, a graduate of Harvard College and Yale Law School who has been an executive of two major financial institutions, has set aside enough of his own money for a comfortable retirement.

Democrats say he is being used by the White House as part of what they contend is Bush's plan to undermine the federal retirement and insurance program.

Pozen says his idea is fair and timely.

"The White House goes out of its way to identify you more by your party label than by what you're saying," New York Rep. Charles Rangel, the senior Democrat on the House Ways and Means Committee, told Pozen during a nearly six-hour hearing last week.

"I would hope that the White House agrees with some of the concepts in progressive indexing," Pozen replied.

Rangel answered: "Take my word for it: Your name would not have been projected as much as it is if you were not a Democrat."

Under Pozen's plan, retirees with average career earnings of \$25,000 a year or less -- about 30 percent of the work force -- would continue to see their benefits linked to wage growth.

People with average annual earnings of at least \$113,000 and above would see their benefits linked to prices, which historically have risen less rapidly than wages. Retirees in between would see their benefits linked to a blend of each index.

Such a plan could eliminate about three-quarters of the \$3.8 trillion benefit shortfall projected over the next 75 years for Social Security. Bush repeatedly has referred to the plan since the news conference in March when he first cited the work of "a Democrat economist named of Pozen."

Addressing an audience in Canton, Miss., last month, Bush said future upper- income retirees should not need benefits based on wage inflation to maintain their lifestyles when they quit working.

"What I'm telling people is, is that ought to be applying for lower-income workers, but not all workers, so that the system can take care of those at the lower income scale. That makes sense to me," Bush said.

The indexing change would mean that all but those who had been low-wage workers would see their benefits increase more slowly than currently scheduled. That's why Democrats have taken the offensive against the mild-mannered Pozen.

Consider a 32-year-old worker earning \$47,000 in 2012, when progressive indexing would begin. At 65, in 2045, he would be eligible for annual benefits of \$16,417, under that type of indexing, rather than \$19,544 as the system now stands.

"Privatization plus deep benefit cuts to middle-class citizens is even worse than privatization alone," said Sen. Charles Schumer, D-N.Y. He is a critic of Bush's proposal to allow younger workers to divert some of their Social Security taxes to personal retirement accounts.

Bush put Pozen on a presidential commission in 2001 that suggested three alternatives for Social Security. The most prominent one linked future benefits for all retirees to price growth.

The commission also recommended letting workers invest up to one-third of the 12.4 percent payroll tax that they and their employers pay to finance Social Security.

While teaching at Harvard Law School in 2002 and 2003, Pozen considered how to avoid the draconian benefit cuts that would accompany a shift from wage- to price-indexing. Seeking a way to preserve retirement income for the most needy, Pozen came up with what he called progressive indexing.

His argument is that middle and high-wage workers have enough disposable income to take advantage of IRAs, 401(k) plans and other private investment vehicles. Because they offer tax incentives, those plans already enjoy government subsidies. In 2004 alone, the government lost \$55 billion in revenues due to IRAs and 401(k)s.

Pozen says his formula provides a different type of subsidy to low-wage workers by maintaining their traditional Social Security check. As a "sweetener" for middle and upper-income worker who would get less than now-promised benefits, he would create private accounts, but half the size of what Bush advocates.

Critics note that \$1.9 trillion in borrowing would be required to cover the lost Social Security taxes diverted to those accounts. Pozen says that debt is a manageable amount considering the program's current unfunded liability, as well as the fact that his plan makes Social Security permanently solvent by 2079, the end of the 75-year actuarial window.

Pozen says the time to act is now, while the country has a second-term president relatively immune to political pressures and before the baby boomers retire. Because of political sensitivity to those near retirement, any changes probably would not take effect for five years to seven years.

"If we wait until 2015 -- the next time there will be a second-term president -- but can't touch benefits until 2022, by then many of the baby boomers will have already retired," he said.