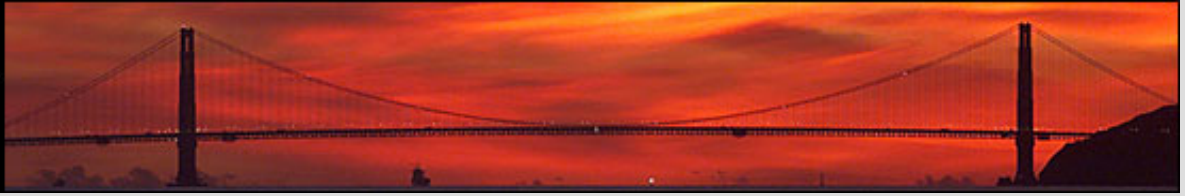


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San Francisco Chronicle

**GOP wants Social Security surplus in private accounts  
Conservatives see it as only way to save the centerpiece of Bush's domestic policy**

[Carolyn Lochhead, Chronicle Washington Bureau](#)

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**Washington** -- Leading House

Republicans and Senate

conservatives announced a plan

Wednesday to create individual accounts from the Social Security surplus, a move long urged by outside advocates as a last-ditch effort to salvage President Bush's keystone domestic policy.

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Calling the proposal a way to stop the raid on Social Security, Rep. Jim McCrery, R-La., said the accounts would wall off the estimated \$87 billion cash surplus in the giant retirement system and prevent it from being spent on other government operations, as it largely has been since Social Security payroll taxes were last raised in 1983.

The plan was endorsed by Bill Thomas, the Bakersfield Republican who chairs the Ways and Means Committee. Thomas said he would include it in the sweeping retirement package he would announce soon.

But the plan quickly raised a firestorm among Democratic leaders and their allied interest groups, who moved rapidly to denounce it as a gimmick that was especially hypocritical coming from Republicans who have been spending the surplus.

"It's kind of like if someone robbed your house, and then came around and wanted to be your banker," said Rep. Earl Pomeroy, D-N.D. "Remember, this is the group that took the surplus to begin with."

The proposal aims at the most politically appealing part of the Social Security debate: saving the surplus for Social Security. The fact that the surplus is and has been spent for years on everything from highways to the war in Iraq widely angers ordinary citizens.

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Former President Bill Clinton made saving the surplus for Social Security a theme of his last term in office, and his vice president, Al Gore, campaigned so hard on the idea of a lock box for Social Security that he was lampooned on "Saturday Night Live."

The government now collects more money in payroll taxes than it needs to pay benefits for current retirees. The surplus is credited to a trust fund, but the actual cash is spent by the government while the trust fund gets special nonmarketable bonds.

The cash surplus will peak in 2007, the year before the first members of the 76 million-strong Baby Boom begin to retire and stop paying payroll taxes and start collecting Social Security benefits. The cash surplus will dwindle until it disappears in 2017 and the program goes into the red.

Bush has proposed that workers be allowed to divert a portion of their payroll taxes to private individual retirement accounts. That idea, which doesn't address the financial solvency of Social Security, has gained little support with the public, according to opinion polls.

Private account advocates argue that putting the surplus in private accounts provides the ultimate lock box. Steve Moore and Larry Hunter of the conservative Free Enterprise Fund urged Republicans to take this approach in March when Bush's plan was mired down, and they even proposed the slogan McCrery and others used Wednesday: "Stop the Raid; Start the Accounts."

Senate minority leader Harry Reid, D-Nev., accused Republicans of raiding Social Security by nearly \$670 billion since Bush became president. House Democratic leader Nancy Pelosi of San Francisco called the GOP plan "just the same risky privatization scheme in different packaging."

David John, an analyst at the conservative Heritage Foundation who favors private accounts, said the proposal hit a political nerve.

"The one thing that you hear at every Social Security meeting is somebody standing up, and usually they're red in the face and want to know, 'Why don't you just start by not spending the surplus on things it was not intended to be used for?' " John said. "Saving the Social Security surplus for Social Security is something that hits a real chord, and that's true left, right and center, and it's also true for young and old."

Rep. Mike Thompson, D-St. Helena, agreed that Republicans "have that part correct, the not spending the surplus. ... Everybody talks about it, and then we peel the money off. I don't believe it should be spent either, and I hear that a lot from my constituents."

But Thompson said he heard more that "they don't want privatization. Clearly we should make a commitment not to spend the money, but it's still private accounts."

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The idea sprang from a paper by Alex Pollack at the American Enterprise Institute in April. Pollack argued that using Treasury bonds to fund private Social Security accounts would overcome the most common objections: that stock market investments are risky and confusing, and that private accounts divert money from Social Security and so require huge transition borrowing to finance benefits for current retirees.

Details of the new proposal were sketchy, but McCrery, who chairs the subcommittee that oversees Social Security, and others estimated the accounts would add up to roughly 2 percent of an average worker's pay. The money would be invested only in Treasury bonds.

McCrery insisted the accounts would not increase the federal deficit because the government could still spend the money represented by the Treasury bonds in the accounts.

It would, however, reveal the true size of the overall federal deficit, currently projected at \$365 billion this year. Without Social Security cash and interest, the deficit would be \$539 billion.

Dean Baker, co-director for the liberal Center for Economic and Policy Research, said Republicans were essentially arguing that private accounts were the only way to force them to stop spending Social Security money. "If I were a Republican, I'm not sure I'd want to make that argument," Baker said.

McCrery also conceded that contributions to the accounts would end in 2017 unless a special board he envisions devised a way to continue funding them.

Jason Furman, a private account foe at the liberal Center for Budget and Policy Priorities, said contributions would dwindle to just \$40 in the last year before the surplus ends. He also said the cost of administering the accounts would overwhelm any benefit.

McCrery argued the difference between the special bonds now going into the Social Security trust fund and the regular Treasury bonds that would go into individual accounts under the new proposal would be that the Treasury bonds would be marketable and be owned by individuals.

The bonds represent "an obligation to you personally, which is different from a promise that 'well, we'll get the money somewhere (to pay benefits).' This seals the money off for Social Security."

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