Dispute exists over where cuts should be made

Overhaul of Social Security expected soon

By PETER A. BROWN
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WASHINGTON — Unless it backs away from what now seems inevitable, Congress will soon overhaul Social Security. The question seems not whether large cuts will be made, but what form they will take.

The undisputed fact is that the system is headed toward bankruptcy. The big disagreement is about where cuts should be made to save the old-age retirement program approved by Congress in 1935 as a centerpiece of Franklin Roosevelt's New Deal.

"Social Security is on the line here and now; Congress has promised benefits that simply cannot be delivered under the present ground rules," says Sen. William Armstrong, R-Colo., who chairs the Senate Social Security subcommittee.

"The question before Congress is whether the 36 million Americans who currently depend on the Social Security system can count on any check at all less than two years hence," budget director David Stockman testified this spring. Sometime in the fall of 1982, he said, "The most devastating bankruptcy in history will occur."

But any cuts by Congress would signify a major change in direction for the program that has been greatly expanded since 1940 when it paid out $35 million in benefits to 254,984 people.

It is now the largest single federal program — consuming 27 percent of the budget — and this year will pay $175 billion in benefits to about 36 million recipients, with an average monthly tax-free check of $374.

Not only retirees, but survivors, the disabled and their dependents are on the rolls. The growth of Social Security past the basic retirement system it was originally created to be is cited by the administration as a major reason it is facing financial ruin.

Social Security is financed through payroll taxes and the levies paid by today's workers go toward supporting present retirees. Those who are now retired and worked previously paid taxes to support the past generation of senior citizens.

So the money that is taken from your paycheck is immediately transferred to a retiree. Unlike private pension systems, there is no chance for interest to accumulate or the money to be invested.

President Reagan, still dodging the political flak he created with his plan to impose stiff penalties on early retirees, is keeping hands off, trying to let Congress decide how to cut and take the heat for it.

Armstrong, his House counterpart, Rep. J.J. Pickle, D-Texas, and Social Security Commissioner Jack A. Svahn all think it's likely Congress will put a limit on cost-of-living increases in Social Security benefits.

What is almost certain is that lawmakers will allow other more prosperous Social Security funds to lend the retirement system money. But that will only buy a small amount of time.

So, unless voters opposed to Social Security cuts have intimidated lawmakers while they were at

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home during the August congressional recess, Social Security will be on the chopping block.

Various projections estimate the shortage at $11 billion to $111 billion over the next five years, depending on economic conditions.

The administration sees the need for about $100 billion in cuts over that period, although some Democrats say the need is nowhere near that large.

The shortage is caused by the economic slowdown unforeseen when Congress passed a series of Social Security tax increases in 1977. Lawmakers said they would guarantee the solvency of the system into the next century.

"We are losing $12,300 every minute from the Social Security system — the clock is running and time is running out," says Health and Human Services Secretary Richard Schweiker, whose department oversees Social Security.

There is also a projected $1 trillion to $1.5 trillion shortfall — about one and a half times the national debt — beginning around 2015 when the baby boom generation reaches retirement. At that time, an average of only two workers will be supporting each retiree. In 1950, 16 workers paid taxes to support each retiree.

Also on the horizon in a decade or so is a potentially serious financing problem for Medicare — the government health insurance program for the elderly. Lawmakers are avoiding that one for now.

Sen. Daniel P. Moynihan, D-N.Y., is one of those who thinks the administration is painting too gloomy a picture, but he and the others agree there won't be enough money on hand next year to pay benefits promptly.

Moynihan and some other Democrats say the administration is using pessimistic economic assumptions to rally support for cuts of a size not needed to preserve the system's integrity. They say the program represents a contract between the American people and their government and cutting benefits would break that commitment.

If one accepts the administration's projections, the only alternative to cutting benefits or restricting eligibility is raising payroll taxes or borrowing income tax revenues, which would probably require an increase in that levy.

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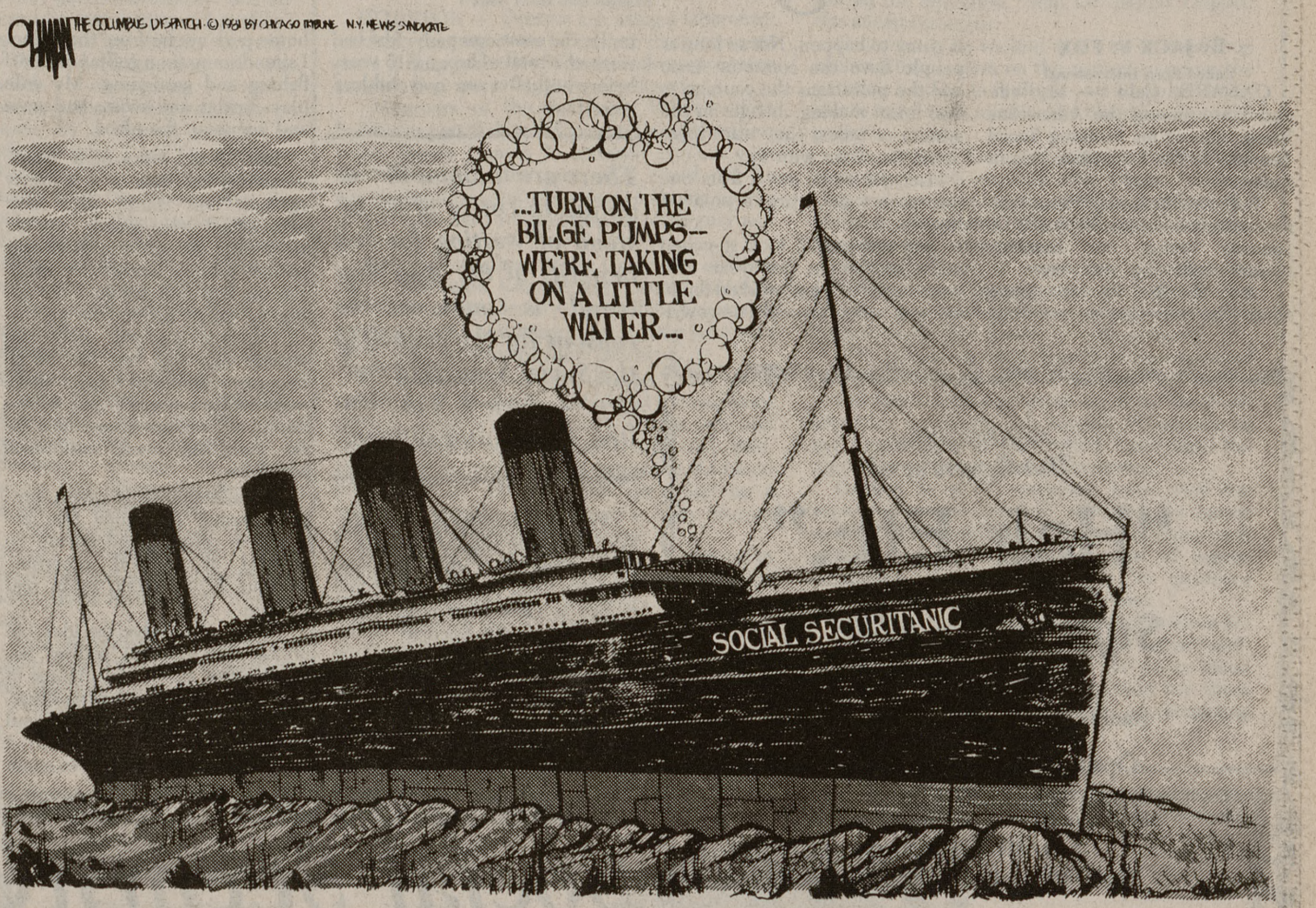
First, he proposed ending student Social Security benefits, ending the minimum benefit level that goes to people even if that amount isn't merited on the basis of their contributions to the system, and ending the lump sum death benefit.

Although the budget signed by the president ends the minimum benefit level, there is a move in Congress to restore it. Social Security officials concede that if the minimum benefit is eliminated then the problem of the cash shortage facing the system is less severe — but still sizeable.



The choice facing lawmakers boils down to a policy decision on how the burden should be shouldered between those who are now retired or will reach that point in the near future, and the young who have decades to go before they stop working.

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Social Security, says Armstrong, "is becoming a very divisive issue, pitting younger people against their elders."

Raising taxes and increasing the retirement age would put the burden on today's young people, since they would be forced to pay the levies. Also next century, when they get ready to retire, is the point at which the retirement age would be raised under the proposals being forwarded.

Adjusting the cost-of-living formula would take away from both current and future retirees. Penalties for early retirement would be a problem mostly for workers now in their 40s, 50s and early 60s who had planned to stop working early.

Cutting the "replacement rate" — the percentage of a worker's salary he gets in benefits — would hurt both the young and those getting ready to retire in the near future.

Although it represented the largest chunk of cuts contained in the Reagan program, it came under little criticism and both Pickle and Armstrong see it as a method worth considering.

In recent years, the replacement rate has steadily increased and Reagan's plan would return it to a point just below where it was in the 1960s.

Lawmakers who talk of putting a cap on cost-of-living increases — and they emphasize eliminating such raises entirely is out of the question — seem to be pointing to a system that would change the way the adjustments are calculated.

The most popular appoach is to peg increases to jump with either wage increases or price increases, depending on which is lower.

Benefit increases are now based on prices and during times of high inflation, as has been the case in the last few years, wages don't keep up with prices so retirees actually do better than workers.

Limiting the cost-of-living increase, experts say, would not only help in the short run — experts say it could save $28 billion by 1986 — but also make a dent in the funding problem anticipated next century.

Another approach would increase early and full retirement ages by three months a year beginning in 2000 until they reached 65 and 68 respectively in 2012.

Backers argue scientific advances have increased the lifetimes of workers far more than the extra three years they would have to remain on the job.

Organized labor and senior citizens groups, especially unhappy with this proposal, say increasing the retirement age would change the rules in the middle of the game.