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How About Private Social Security Accounts?

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The stock market reached a record high last week, closing over 17,000 for the first time. Good news, of course. As President John F. Kennedy famously said, “A rising tide lifts all boats.” But it sure helps if you own a boat.

In this case, the “boat” would be the dynamic American stock market.

But investors in the stock market disproportionately come from the top 1 percent, and they hold about 35 percent of all stocks and mutual funds. The next-richest 9 percent control about 45 percent. The remaining 90 percent have less than 20 percent. While nearly half of Americans have either direct or indirect investments in the stock market, half of Americans do not. And even for those who do, their home equity is still, by far, their largest investment.

President Obama wants to focus his remaining years in office on fighting “income inequality.” To do so, he has proposed things like “promise zones” where federal grants and tax incentives is supposed to spark development. He has promoted silly income-transferring schemes like “cash for clunkers” and “cash for caulkers,” and HAMP to help homeowners fight off foreclosure.

But there is something we could do immediately to help to increase the net worth of the bottom 99 percent — allow private accounts for Social Security.

Chile recently celebrated its 33rd year of private retirement accounts. Its then-secretary of labor and Chilean pension system, Jose Pinera, went on television day after day to explain to cabdrivers, housewives and construction workers the benefits of allowing private savings accounts.

Pinera successfully persuaded 93 percent of Chilean workers to invest their “social security” contributions in one of several types of managed portfolios. Those who feared the “risk” of the stock market could continue as they did before. While U.S. workers pay 12.4 percent of their wages into Social Security, Chileans put 10 percent (or up to 20 percent) of their earnings into a private fund, earning compound interest. On retirement, workers can choose a life annuity or make programmed withdrawals. Heirs inherit what’s left.

The result? Chilean workers averaged a near double-digit annual return on their money — 9.23 percent above inflation — over the first 30 years. In the U.S., Social Security nets a theoretical 1 to 2 percent return — less for newer workers. Not only do they allow private accounts for "social security" in Chile, but also in Australia and the United Kingdom.

Columnist John Tierney, writing in the *New York Times* in 2005, calculated what his retirement benefits would be if he'd paid into the Chilean system instead of Social Security. He found he'd have three options: "(1) Retire in 10 years, at age 62, with an annual pension of $55,000. That would be more than triple the $18,000 I can expect from Social Security at that age. (2) Retire at age 65 with an annual pension of $70,000. That would be almost triple the $25,000 pension promised by Social Security starting a year later, at age 66. (3) Retire at age 65 with an annual pension of $53,000 and a one-time cash payment of $223,000."

Social Security is an especially bad deal for blacks.

CATO Institute's Michael Tanner writes: "The longer you live, the more money you get from Social Security. But African Americans have shorter life spans than whites. As a result, a black man or woman earning exactly the same lifetime wages, and paying exactly the same lifetime Social Security taxes as his or her white counterpart, will likely receive a far lower rate of return. A study by the nonpartisan RAND Corporation found that the rate of return for African-Americans was approximately one percent lower than that for whites. The result was a net lifetime transfer of wealth from blacks to whites averaging nearly $10,000 per person."

Worse, the Supreme Court ruled long ago that one does not have a proprietary interest in his Social Security contributions. In other words, when the recipient dies, the "contribution" goes "poof." With private accounts, the money can be bequeathed to a family member or to a charity.

So why not private Social Security accounts?

The late vice presidential candidate, Rep. Geraldine Ferraro, D-N.Y., opposed private accounts for Social Security. She said if one lacked the "knowledge and the wherewithal to manage your own private funds ... you're gonna be out of luck." Out of luck?

Legendary investor Warren Buffett quotes his mentor, Benjamin Graham, who said: "In the short run the stock market is a voting machine, but in the long run it is a weighing machine." For the long term, prices reflect actual value, and investors who prudently and patiently "invest" in the stock market will have a much greater net worth and therefore realize the resources to enhance their comfort in their retirement years.

Democrats think Americans too stupid, too irresponsible and too impatient to manage their own Social Security contributions. Chileans can. Australians do. Many European and Latin American citizens do. But Americans, at least the bottom 99 percent, well, they're just too stupid to join the party.