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High on our president's list of priorities for his second term is the privatization of some portion of Social Security. Like him or not, you have to give President Bush credit for a willingness to "stir the pot" because there are not many agendas for him to pursue that are as likely to stir passions -- pro or con.

Our Social Security system has roots back to the 1870s, when public policy began to accept the fact that Americans were moving from the farm to the industrialized city. With this change came the realization that workers' welfare should be protected. Both states and federal governments began to adopt laws such as a workers' compensation to protect workers injured on the job.

Early in the 1900s, retirement plans were beginning to sprout up for city and state employees. The Great Depression brought shrinking personal savings and lack of employment to the nation. Concerned that workers would be without resources at retirement, the Roosevelt administration acted to put in place a retirement income supplement plan, followed in 1940 with a survivor assistance plan.

The result is now the largest public assistance program in the world, funded by a combination of worker and employer contributions. While we would like to believe that the money we contribute is set aside in individual accounts, nothing could be further from the truth, as the program has become a "pay as you go" plan.

Policy-makers are struggling with the thought that, as the work force declines -- and it will because of the age wave of baby boomers retiring -- there will be fewer workers working and contributing to the system.

Advocates for a form of privatization point to the fact that the current Social Security system does not provide enough incentive for people to save. However, Steven Landsburg in his book "Armchair Economist: Economics and Everyday Experience" stated, "Most of economics can be summarized in four words: People respond to incentives."

While researching for this column, I ran across a fascinating article from the Cato Journal titled "Empowering Workers: The Privatization of Social Security in Chile." Author Jose Pinera describes the success Chile has had with privatization of its national retirement system.

In its first 15 years of operation, pensions in the new private system already are 50 percent to 100 percent higher than in the old "pay as you go" system. The resources of the private fund accounts are equivalent to

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almost 40 percent of GNP as of 1995. Because of the stimulus from additional savings and investment, the Chilean economy has grown at a rate of 6.5 percent annually as compared to 3 percent.

Under Chile's Pension Savings Account, a worker's pension level is determined by the amount of money he accumulates during his working years. Neither the worker nor his employer pays a tax into the system. Instead, the worker has a mandatory 10 percent withheld from his paycheck up to a pay base of \$22,000. He may also save an additional tax-deductible amount of 10 percent.

The worker chooses a Pension Fund Administration company, similar to a mutual fund. Workers may change companies, which provide incentives for the private companies to achieve higher returns. The return within the account is tax-free, but when withdrawn, the worker pays income tax on the amount. For workers who have not contributed enough by retirement, the government has a standard for a minimal subsidy.

At retirement, the worker may choose to purchase an annuity from a private insurance company or take his money out over time with a series of withdrawals. Should he die before his funds are exhausted, the balance becomes part of his estate — a far cry from our Social Security system.

WALL ON THE STREET

by Warren Wall

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