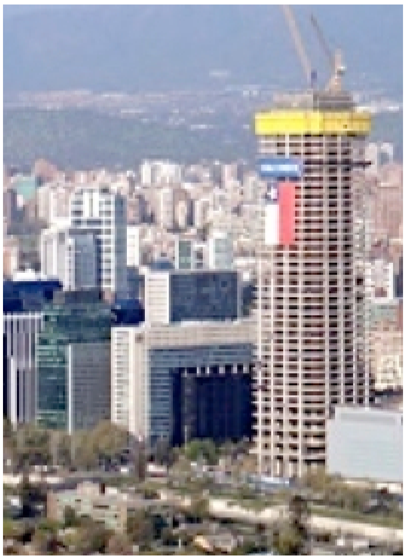
Chile’s Privatized Social Security Program is 30 Years Old, and Prospering



As a quiet example of how privatizing Social Security works in the real world, Chile’s 30-year experiment is succeeding beyond expectations. Instead of running huge deficits to fund the old “PayGo” system, private savings now exceed 50 percent of the country’s Gross Domestic Product.

Prior to May 1, 1981, the Chilean system required contributions from workers and was clearly in grave financial trouble. Instead of nibbling around the edges to shore up the program for another few years, José Piñera, Secretary of Labor and Pensions under Augusto Pinochet, decided to do a major overhaul of the system:

> We knew that cosmetic changes — increasing the retirement age, increasing taxes — would not be enough. We understood that the pay-as-you-go system had a fundamental flaw, one rooted in a false conception of how human beings behave. That flaw was lack of a link between what people put into their pension program and what they take out….
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> So we decided to go in the other direction, to link benefits to contributions. The money that a worker pays into the system goes into an account that is owned by the worker.

The system still required contributions of 10 percent of salary, but the money was deposited in any one of an array of private investment companies. Upon retirement, the worker had a number of options, including purchasing an annuity for life. Along the way he could track the performance of his account, and increase his contribution (up to 20 percent) if he wanted to retire earlier, or increase his payout at retirement.

How well has the system performed? John Tierney, a writer for the *New York Times*, went to visit Pablo Serra, a former classmate and friend in Santiago a few years ago, and they compared notes on how well their respective retirement programs were doing. Tierney brought along his latest statement from Social Security, while his friend brought up his retirement plan on his computer. It turned out that they both had been contributing about the same amount of money, so the comparison was apt, and startling, said Tierney:

> Pablo could 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. OR
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> Pablo could retire at age 65 with an annual pension of $70,000. That would almost triple the $25,000 pension promised [to me] by Social Security starting a year later, at age 66. OR

Pablo could retire at age 65 with an annual pension of $53,000 and [in addition receive] a one-time cash payment of $223,000.

Tierney wrote that Pablo said "I'm very happy with my account." Tierney suggested that, upon retirement, Pablo could not only retire nicely, but be able to buy himself a vacation home at the shore or in the country. Pablo laughed it off, and Tierney wrote: "I'm trying to look on the bright side. Maybe my Social Security check will cover the airfare to visit him."

> According to *Investors Business Daily*, the average annual rate of return for Chilean workers over the last 30 years has exceeded 9% annually, *after inflation*, whereas "U. S. Social Security pays a 1% to 2% (theoretical) rate of return, and even less for new workers."

As expected, the capital accumulated in these privatized accounts have generated substantial growth in Chile's economy. As noted by Wikipedia, "Chile is one of South America's most stable and *prosperous* nations, leading Latin American nations in human development, competitiveness, *income per capita*, globalization, *economic freedom*, and low perception of corruption." [Emphases added.]

> High domestic savings and investment rates helped propel Chile's economy to average growth rates of 8% during the 1990s. The *privatized national pension plan* (AFP) has encouraged domestic investment and contributed to an estimated total domestic savings rate of approximately 21% of GDP.

This was anticipated by Piñera when the plan was originally designed and implemented in 1981. In reviewing the success of the plan after just 15 years, Piñera said, "The Chilean worker is an owner, a capitalist. There is no more powerful way to stabilize a free-market economy and to get the support of the workers than to link them directly to the benefits of the market system. When Chile grows at 7 percent or when the stock market doubles … Chilean workers benefit directly, not only through high wages, not only through more employment, but through additional capital in their individual pension accounts."

All of which should resonate with American workers who have been forced to contribute to a failing Social Security system for years. And yet when given the opportunity to support any sort of privatization, as during the Clinton and Bush administrations, the idea gained little traction. And now that Rep. Paul Ryan's "Road Map" offers the chance for those same workers to contribute just one-third of their Social Security taxes to similar private accounts, the idea continues to fall on deaf ears.

However, according to Rasmussen Reports, that may be changing. Nearly half of those polled now correctly understand 'that making major long-term cuts in government spending will require big changes" in Social Security, Medicare, and defense. That figure, adds Rasmussen, "suggests a growing awareness of budgetary realities among the American people."

To privatize Social Security makes nothing but sense, as in dollars and cents. The ownership of private property has always propelled economic prosperity, higher wages and improved standards of living. Only those whose goals are to impoverish the American worker and reduce his ability to manage his own affairs and control his own future would resist such an attractive alternative. As noted by Piñera,

> This is a brief story of a dream that has come true. The ultimate lesson is that the only revolutions that are successful are those that trust the individual, and the wonders that individuals can do when they are free.

Photo: The financial district of Santiago, Chile