

Editorials / Op-Ed

The New York Times

NYTimes.com

[Go to a Section](#)

Welcome, [ctzcrank](#) - [Member Center](#) - [Log Out](#) - [Help](#)

Site Search:

[Editorials/Op-Ed Home](#) [Editorials](#) [Columnists](#) [Contributors](#) [Letters](#) [New York/Region Opinions](#)

[Op-Ed Columnist](#)

Place Your Bets

[E-Mail This](#)

• [Printer-Friendly](#)

ARTICLE TOOLS
SPONSORED BY

millions
NOW PLAYING IN THEATERS

By [JOHN TIERNEY](#)

Published: May 7, 2005

After a recent column comparing Social Security with the Chilean system of private accounts, I was deluged with letters from readers eager to explain why I am a superficial nitwit. In this case, they're at least half right.

The column was superficial because I simply looked at how much more money I'd have if I had invested my Social Security contributions in the private account of a Chilean friend and economist, Pablo Serra. The numbers were impressive - my projected pension would be triple what I'm promised by Social Security - but they're not as important as another consideration: which type of pension is riskier?

Pablo has done well because Chilean mutual funds have yielded high returns in the past two decades - probably higher than I would have gotten from an American mutual fund, although here I'd still be way ahead of Social Security. Historically, stocks have yielded returns two to three times what Social Security pays.

Still, stocks could yield much lower returns in the future, as critics of private accounts have pointed out in advertisements comparing the market to a slot machine and extolling the "guarantee" of Social Security.

But there's also another kind of risk to consider, one that Chilean workers kept mentioning to me. The best part of their private accounts, they said, was that they'd put "la plata donde mis ojos la vean" - the money where my eyes can see it. They knew they might lose some of it in the stock market, but they preferred that to watching it all disappear into politicians' hands.

My Social Security, far from being a guarantee, comes with a political risk that will become clear around 2017, when I'll be 64. That's when the Social Security Administration expects to start paying out more than it collects in taxes.

In theory, there is a trust fund to cover this shortfall. When Congress sharply raised Social Security taxes in the 1980's, the idea was to generate surpluses during the baby boomers' working years that would finance our retirement. Instead, Congress spent our money, leaving the Social Security trust fund with a file cabinet full of i.o. u.'s in the form of Treasury bills.

It's not a problem now, because for the next few years the baby boomers' taxes will provide an annual surplus for Social Security of about \$100 billion, allowing Congress to dole out the extra money for its favorite causes, like farm subsidies and weapon systems and West Virginia buildings named after Robert Byrd. But in four years the surpluses start declining, and they turn into deficits around 2017, when Congress must begin repaying those i.o. u.'s.

By the time I'm in my 70's, the Social Security shortfall will force Congress to find new taxes or make spending cuts that are more than half the size of the Pentagon's budget. If I make it to age 88, there will no more i.o.u.'s left in the trust fund, so everyone's benefits would have to be cut by 27 percent.

Faced with the grim math, President Bush offered a progressive compromise last week to Democrats: protect the poor while moderating the growth of benefits for higher-income workers. Democrats refused to bite, denouncing his "cuts" without offering a plan of their own, and members of both parties wondered why any politician would jeopardize his party's chances in 2006 by tackling an unpleasant future problem.

You can call the Democrats irresponsible obstructionists, but they're just following the first rule of politics: get re-elected. It's the same rule followed by the politicians from both parties who have spent the baby boomers' retirement money. Why set aside money for 2017 if it could be used to woo voters and campaign contributors for the next election?

I can't protect my pension against political risk, but Pablo can help protect his against the risks of the stock market. As he approaches retirement, he can gradually shift his money out of stocks and into bonds, like the ones that financed the private road between Santiago and the port city of Valparaiso, which will be paid off by tolls. The Chilean pension system has billboards along the road proclaiming, "Your savings are financing this highway, and this highway is financing your retirement."

Those billboards have been on my mind. My pension depends on 535 politicians who will be asked to vote for steep tax increases or budget cuts that they fear could cost them their jobs. Pablo's pension depends on people driving between Chile's two largest cities.

E-mail: tierney@nytimes.com

Related Articles

- [Op-Ed Columnist: The Proof's in the Pension](#) (April 26, 2005)
- [What's Good for Chile's Retirees...? \(5 Letters\)](#) (April 28, 2005)
- [Chile's Retirees Find Shortfall In Private Plan](#) (January 27, 2005) \$
- [Ideas & Trends: Social Security, Chilean Style; Pensioners Quiver As Markets Fall](#) (August 16, 1998) \$

Related Topics

- [Social Security \(US\)](#)
- [Chile](#)
- [Bush, George W](#)
- [Social Security Administration](#)

Inside NYTimes.com



The Impact of a Stadium



Social Conscience, Junior Division



[Sarah Vowell's Dead Presidents](#)



[Stalking Ginseng in Appalachia](#)



[Chopping Off the Weakest Branch](#)

Most E-Mailed Articles *The New York Times*

[Past 24 Hours](#) | [Past 7 Days](#)

1. [Vatican Is Said to Force Jesuit Off Magazine](#)
2. [Thomas L. Friedman: Tuning in to Jon Stewart, and Britney Schmidt](#)
3. [Maureen Dowd: What Rough Beasts?](#)
4. [Op-Ed Contributor: The Gravest Generation](#)
5. [Time Travelers to Meet in Not Too Distant Future](#)

1. [Ugly Children May Get Parental Short Shrift](#)
2. [Republican Chairman Exerts Pressure on PBS, Alleging Biases](#)
3. [Thomas L. Friedman: Tuning in to Jon Stewart, and Britney Schmidt](#)
4. [On Education: SAT Essay Test Rewards Length and Ignores Errors](#)

5. [Bob Herbert: From 'Gook' to 'Raghead'](#)

[Go to Complete List](#)

[Copyright 2005 The New York Times Company](#) [Home](#) [Privacy Policy](#) [Search](#) [Corrections](#) [RSS](#) [Help](#) [Contact Us](#)

[Back to Top](#)