Straight Talk

By Muriel Sluyter

Galveston, San Diego & Social Security

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Greetings, Gentle Reader,

What with tidal waves, Iraqi elections, floods, the feeding and housing of millions of South Asians, and California mud slides, this year is starting off with a bang! Without the despised American military, vast numbers of tidal wave survivors would die of starvation and/or disease. Yup. This year is going to be something else.

How about Social Security? That fight is heating up, and the Reps in Washington are getting ready to rumble, because S.S. really is going broke, and they all know it. It has become a pay-as-you-go system. There is no Trust Fund. It's just a pile of IOUs. Any good promoter could sell tickets to a battle as good as this one will be. You young guys who love to see a good fight, listen up! This one promises to be a beaut!

Let's look at S.S.'s history: It was created in 1935. State and local government employees couldn't join, because Congress wasn't sure it was constitutional to tax state governments. In the '50s they changed the law so state and local governments could either go in or stay out, whichever they chose. Then in 1983, since the system already was getting weak, the feds shut the door and locked it so no one else could leave S.S.

San Diego scooted out of S.S. in 1981, just under the wire. They were a conservative area back then, and city administrators figured they could improve on S.S. for their own people. They made the plan mandatory, but worked it so employees could participate in additional retirement plans if they chose.

Workers had to contribute 3 percent of their salaries, but could put in as much as 7.5 percent. The city matched dollar for dollar, which persuaded most workers to save more than they would otherwise have done.

As a rule, most city workers contribute only the minimum percentage at first, but it doesn't take them long–as they watch the dollars add up–to decide to go for the maximum. By now, more than 85 percent of San Diego's employees put in more than the required minimum.

In the beginning, the city treasurer invested the money in low-risk securities, which averaged between 5 and 8 percent return per year. In '96, the system was changed so the workers had more say over the investing of their funds. They were given a choice of four very stable mutual funds in which they could invest. They have moved about 50 percent of their money into those funds, bringing their annual rate of return to over 14 percent.

Under their plan, even if a worker is a stick-in-the-mud, he can stash away a lot of money over the years. At retirement, if he chooses to use that stash to buy an annuity with a monthly payment plan, he can bring in several thousand dollars per month, roughly four times what he would bring in with S.S. Best of all, it is his own money, and his surviving family gets it when he dies.

Galveston, Texas, has a similar plan, but San Diego's is said to be better. Still, Galveston workers are like the San Diego ones: They are grateful to have their plan, rather than Social Security, because it is vastly superior.

America's older workers will continue to get S.S. for decades. Only younger workers will have the choice of putting a small percentage of their payroll taxes into the Market. They are the ones at risk, because the present Social Security plan is going to retire well before they do!

Curiously, AARP campaigns tirelessly against S.S. reform, but where is their money? In the Stock Market. Labor Union pension funds? Ditto. Why? Because, properly managed, it's safe, and it works.