



## Privatized Social Security – Everywhere but the U.S.?

by Amy K. Frantz

Here in the United States, the debate continues over the future of Social Security. The Social Security program faces many challenges, including fewer workers supporting more retirees, and the question of reducing benefits vs. increasing payroll taxes. Some countries around the world have already confronted these or similar problems, and have concluded that privatizing all or part of their retirement programs is the answer.

Chile replaced its government-run social security program with a private pension system in 1981. Instead of paying a social security tax, workers are required to contribute ten percent of their income into a private pension plan. If they choose, workers have the option of contributing up to 20 percent of their income to the plan. These private pension plans are similar to a 401(k) plan; the individual decides where and how to invest the money, choosing from a number of privately managed, but government regulated, mutual fund-type retirement plans. Because they, rather than the government, control their retirement fund, workers view the contribution they make, “not...as a tax, but rather as part of their benefits.”<sup>1</sup>

Workers who entered the labor force after the 1981 reforms are required to join the private pension system. Those already working in 1981 were given the choice of remaining in the old government-run system or joining the new private system. Ninety percent of Chile’s workers chose to join the private system within two years of its adoption.<sup>2</sup>

At the time the pension plan reforms were adopted in Chile, it was estimated that a private pension plan would have to provide a real rate of return of only four percent per year in order for workers to be as well off as they would be under the government-run plan.<sup>3</sup> Since that time, the real rate of return on the private retirement plans has averaged just over ten percent.<sup>4</sup>

José Piñera, Chile’s Minister of Labor and Social Security from 1978 to 1980, was responsible for the privatization of Chile’s pension system. In an essay for Cato Institute, Mr. Piñera writes of the results of a private retirement system. Workers “feel more connected to the overall performance of the economy...Pension privatization led to a radical redistribution of power from the state to civil society and, by converting workers into individual owners of the country’s capital, has created a political and cultural atmosphere more consistent with free markets and a free society.”<sup>5</sup>

Since Chile’s adoption of a private retirement system, many other countries have followed, implementing plans to partially or fully privatize their own social security retirement systems.

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A Publication of:

**Public Interest Institute at Iowa Wesleyan College**

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Just a few examples from Americans for Tax Reform's *Countries With A Personal Account Option To Social Security*:<sup>6</sup>

**Great Britain** – allowed companies with their own pensions to start opting out of part of Social Security as early as 1978 under a Labour government. By 1988, the Thatcher Administration had enacted a personal account option for the bulk of the system. About 80 percent of British workers have now opted out of the bulk of the old system there and into one of the alternative systems.

**Mexico** – adopted a personal account option for all of their program's retirement benefits in 1997. [Six other Latin American countries have also implemented some degree of personal account option to social security.]

**Hungary** – Starting on January 1, 1998, Hungarian workers began paying into personal accounts for their retirement benefits, replacing the bulk of the old government system.

**Kazakhstan** – This former Soviet Republic adopted a system similar to Hungary's in 1998 as well.

**China** – This Communist country has already adopted a personal account system for urban workers and is developing plans to extend the accounts to the entire country.

Rather than tax increases or band-aid schemes to temporarily extend the life of our government-run retirement plan, the United States should study the private retirement systems of other countries to determine the best reform for our own Social Security program.

#### ENDNOTES:

<sup>1</sup> Bartlett, Bruce, "Chile's Privatized Social Security Points the Way," National Center for Policy Analysis Idea House, July 16, 1997, found at [www.ncpa.org/pi/congress/socsec/july97a.html](http://www.ncpa.org/pi/congress/socsec/july97a.html).

<sup>2</sup> "Countries With A Personal Account Option To Social Security," Americans for Tax Reform *Policy Brief*, September 2000, found at [www.atr.org/pdf/files/092000pb\\_1.pdf](http://www.atr.org/pdf/files/092000pb_1.pdf).

<sup>3</sup> Bartlett, Bruce, "Chile's Privatized Social Security Points the Way," National Center for Policy Analysis Idea House, July 16, 1997, found at [www.ncpa.org/pi/congress/socsec/july97a.html](http://www.ncpa.org/pi/congress/socsec/july97a.html).

<sup>4</sup> "Privatizing Social Security in Latin America," National Center for Policy Analysis, *Policy Report No. 221*, January 1999; and Piñera, José, "Liberating Workers: The World Pension Revolution," Cato Institute, *Cato's Letter #15*, 2001, p. 2.

<sup>5</sup> Piñera, José, "Liberating Workers: The World Pension Revolution," Cato Institute, *Cato's Letter #15*, 2001, p. 2.

<sup>6</sup> "Countries With A Personal Account Option To Social Security," Americans for Tax Reform *Policy Brief*, September 2000, found at [www.atr.org/pdf/files/092000pb\\_1.pdf](http://www.atr.org/pdf/files/092000pb_1.pdf).

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