

SCARY STUFF

OCTOBER 2008

Entertainment Weekly just put out a list of the most frightening movies of all time. Included in the list are: The Shining, The Exorcist, Silence of the Lambs, Seven, Rosemary's Baby and Jaws. In my opinion what makes a truly frightening movie is the belief by the viewer that what they are watching could really happen. Throughout this entire credit crunch/banking fiasco/real-estate bubble, I have not been frightened by the inevitable outcome. Eventually the panic will subside, the all clear will sound and things will get back to reality. The world does not end; this time is no different than the last. However, this past month, I got truly frightened, really scared, enough to keep me up all night, and it had nothing to do with what the markets had done that day.

The country of Argentina, which has been hampered by financial crisis after financial crisis, has made the horrible attempt to shore up their government by seizing the private pensions of its citizens. The leftist government this past month proposed nationalizing the private pensions which would provide it with the funds it needs to meet debt payments and avoid it's second default in the past ten years. The Argentine private pension system was created as an alternative to state pension funds back in 1994 by conservative President Carlos Saul Menem. In Argentina, workers have the option of paying into individual retirement accounts run by pension funds rather than the government. Three million citizens of Argentina do this; they can track their accounts and have some say over how the pension funds invest the money making their system similar to our 401(k) system. Since 1994, the private system has shown an average annual return of 13.9%. After the announcement of the seizure, the Argentine stock market dropped over 25% in two days.

“But, that could never happen here...Could it?”

Two of the most powerful House Democrats have put your 401(k) in their crosshairs. They are looking at proposals to completely take over our \$3 trillion 401(k) system, including the elimination of the \$80 billion in annual tax breaks that 401(k) investors receive. House Education and Labor Committee Chairman George Miller (D)-California, and Rep. Jim McDermott (D)-Washington, Chairman of the House Ways and Means Committee's Subcommittee on Income Security and Family Support, are looking at redirecting those tax breaks to brand new **Big Government** system of guaranteed retirement accounts to which all workers would be **obliged** to contribute.

A plan by Teresa Ghilarducci, professor of economic-policy analysis at the New School for Social Research in New York, has all workers receiving a \$600 annual inflation-adjusted subsidy from the U.S. government. Whoopee!!! However, Uncle Sam would require every worker to contribute 5% of their pay into a guaranteed retirement account administered by the **ponzi-scheme-like** Social Security Administration. Your investment choices...Special government bonds, that would pay 3% a year adjusted for inflation. Side effect...More government IOU's!

Once again, our government wants to stick it to the prudent and responsible, in the fast becoming socialist USA. George Miller states, ***“The savings rate isn't going up for the investment of \$80 billion. We have to start to think about whether or not we want to continue to invest \$80 billion for a policy that's not generating what we now say it should.”***

Some other observations:

1. By eliminating the deduction, employers would no longer have any incentive to do matching contributions.
2. 3% is a lousy long-term return! The long-term return of the stock market adjusted for inflation is around 7%. Using our compounding calculator we will start with an initial investment of \$10,000, contributing \$10,000 a year for forty years, with a final sum is \$804,599. At a 7% annual return the final sum is \$2,349,583.
3. In a presentation to the far left Economic Policy Institute, Teresa Ghilarducci acknowledges that her plan would amount to a tax increase on workers making more than \$75,000 a year. (That is certainly much less than the \$250,000 Barack Obama said would be his tax increase threshold.)
4. You die; Uncle Sam takes. This plan would only allow workers to be able to pass half of their account balances to their children, grandchildren etc. (401(k) balances are fully heritable although they are subject to the income tax.)
5. The Halloween trick! In an effort to dupe investors into handing over their retirement to the ***BigGov Investment firm***, Ghilarducci offers up this slippery enticement. ***“Short-term I propose...that the Congress allow workers to swap out their 401(4) assets, perhaps at August levels, for a guaranteed retirement account...just a onetime swap.”*** This Teresa is almost as bad as the hedge fund and big brokerage talking heads making the television rounds trying to talk investors into selling everything off in their portfolios to trigger the mythological ***“capitulation trade,”*** (Definition: Get Mom and Pop investors to panic sell, so they can pick up undervalued equities on the cheap and drink their proverbial milkshake once again.)

You are 20 years old. You are about to take your first post collegiate job. You are minding your own business watching a football game on a Sunday afternoon when all of a sudden there is a knock on your door. You reluctantly go to the door and open it, where on your steps stands a tall lanky gentleman, with grey hair, a long beard, holding a briefcase.

“Hello, my name is Sam, I am from the BigGov Investment firm and I am here to start your special BigGov retirement plan.”

You politely tell Sam, that you are not interested in what he is selling and start to close the door when a swift kick props the door open and subsequently scares the hell out of you. Sam looks you straight in the eye and tells you...

“You, my friend, do not have a choice.”

This was taken from a 2005 column I composed entitled Social Insecurity. In this article I chronicle the folly of our Social Security system. I have warned Americans for years that they have no legal right to receive it, and if you are 45 years or younger, assume in your financial planning that you will not, or the possibility of receiving a seriously reduced payment. (Little known fact here...**Benefits are not guaranteed!** In two major cases, Helvering v. Davis (1937) and Flemming v. Nestor (1960), the Supreme Court ruled that individuals have no legal claim to Social Security. As a result, Congress can reduce Social Security benefits at any time, which it already has by raising the retirement age (leading to fewer benefit checks) and imposing a special tax on benefits. Workers have no projected right in Social Security benefits simply because they have paid Social Security taxes.)

Tasking the Social Security/BigGov Investment firm with a grand takeover of 401(k)'s, in my opinion, is downright frightening. You want to talk about a financial firm that will eventually need a bailout...the \$750 billion recent asset buy/bailout by the government will look miniscule in comparison to what will be required to shore up Social Security. I feel that this latest government grab idea is just another attempt to extend the life of Social Security, rather than force our politicians to make the difficult and necessary adjustments to defuse the ticking time bomb. Rather than eliminate a system under the guise **“that not enough people are participating”** give people more of an incentive to invest. Educate investors at a younger age in regards to the importance of investing and saving. Why is it as well, that individuals that have made sacrifices, acted in a prudent fashion, saved and planned for their future be penalized?

Scary stuff.

Source Material:

Moffett Matt [Argentina Makes Grab for Pensions Amid Crisis](#) *Wall Street Journal* October 2008

Taranto James [Eveing Your Pension](#) *Wall Street Journal* October 23, 2008

Pethokoukis James [Would Obama, Dems Kill 401\(k\) Plans?](#) *USA Today* October 23, 2008

[House Democrats Contemplate Abolishing 401\(k\) Tax Breaks](#) *Workforce Magazine* October 16, 2008