

Retirement Fund Fox Guarding the Hen House

February 26, 2010 - Today, Vice President Joe Biden laid out his plan for protecting retirement savings plans from unscrupulous brokers and con artists. While the plan does have some good points and it does attempt to protect consumers from conflicts of interest that many brokers have, it also ignores the 800 pound gorilla in the room. The fact that the United States Government continues to collect Social Security taxes from every working American and then spend the monies collected on everything other than Social Security. Any investment manager who acted in this way would find themselves quickly locked up in a federal penitentiary.

The plan announced by the Vice President, while simplistic, is both interesting and long overdue. Brokerage houses and investment managers would not be able to steer their clients into investments that are more profitable for their firms unless they follow one of two rules. They will either be barred from receiving commissions on such investments, or the advice they give has to be based on a computer model that is certified by independent experts.

The new rules would apply to any investment house that provides investment services to employers and investment advice to employees at the same time.

While these rules will apply to the private sector, they will do nothing to shore up Social Security. And that is a problem.

Over its lifetime, Social Security has collected far more from American's than it has ever paid out. That's the good news. The bad news is that the federal government regularly raids the Social Security Trust Fund and uses the money for other programs. If you have ever wondered why economists keep saying that Social Security is going broke, this is one of the primary reasons.

If the money collected for Social Security was managed by private investment companies, this misuse of funds would be criminal. But because the government runs the show, it is simply business as usual. It may very well be that the most unscrupulous investment manager around is Uncle Sam, and there is nothing in this new plan that will protect any of us from him.

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