

TENTMAKERS

Financial Counsel for Pastors, Deacons, and Seminarians

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PENSIONS

by Gary North

The pension idea is one of the worst ideas in twentieth-century economic history. It has led men to believe that their future was secured, only to learn too late that the pension was reduced to zero through a technicality (such as a three-week lay-off out of a total of three decades of work), or reduced to a pittance through price inflation, or purchased at the expense of conscience, as in the Presbyterian Church, U.S.A. - Orthodox Presbyterian Church division of 1936. The man who voluntarily entrusts his economic future to any conventional team of "expert" planners is not simply stupid; he is suicidal.

If you think I am exaggerating, and you have a church-run pension program or are thinking about joining one, take the following precautions. First, get a copy of the church-managed pension portfolio. See its performance in terms of increased capital over the past twenty years, especially over the last twelve. Then compare this increase—if any—with the rise in consumer prices during the same period. You can get the figures out of the publication of the Federal Reserve Bank of St. Louis, *Annual U.S. Economic Data*, sent free of charge on request (P. O. Box 442, St. Louis, MO 63166). I am using the May, 1978 edition. Between 1958 and 1977, the Consumer Price Index rose at a compound rate of 4% per annum. Breaking down these figures, from 1958 through 1965, the rate was 1.376 per annum. From 1966 through 1977, the increase was 5.8% per annum. See if your pension fund matched that increase, (if necessary, get a cheap Texas Instruments or other financial calculator and compute the compound growth rates—a very simple operation.) This means that to break even, your fund had to increase at almost 6% per annum, 1966-77. That means it had to double.

What if you wanted to do better than break even? For what such data are worth, the value of industrial production between 1966 and 1977 supposedly increased at about 3.1% per annum (discounting for inflation). Did your pension fund increase annually at 8.9%, thereby merely keeping pace with the rate of growth of industrial production in the U. S.? Did it get a net increase of 3.1% annually ($3.1\% + 5.8\%$ [price inflation] = 8.904)?

If you won't go to the trouble of borrowing a little financial calculator, or paying \$25 for a TI model, and find out how the fund managers did with the capital at their disposal, then you are flying blind into a most uncertain economic future. If the pension fund's assets did not increase by at least 150%, 1966-77, then your fund's managers did not keep pace with

the increase of Gross National Product (not adjusted for price inflation).

Have you ever even raised the question concerning your pension fund? Don't you think it's about time that you did?

If your church's pension fund program is new, then you have a real problem in making these calculations. I suppose you could try to check out the managers' philosophies of investing by personal contact. You could look at the assets in the present fund and check their prices in 1966 or 1958, but this really isn't the most fair way, since there is no simple way to be sure about such things as stock splits (two shares for one), dividends, and so forth. You, like the managers, are really flying blind.

The Age of Inflation

Assume that your fund has kept pace with past price inflation (I'll almost guarantee you that it hasn't.) Assume that the assets have even kept pace with the increase in GNP. What about the future?

What kind of assets are in the pension fund today? How about long-term bonds? As prices go up, lenders try to hedge against price inflation by tacking on an "inflation premium" to their loans. This forces up long-term interest rates. As long-term interest rates rise, the present discounted market value of presently owned bonds tends to fall. That means your fund's capital is shrinking. Bond owners have become long-term creditors, in dollars, when dollars are shrinking at a phenomenal rate. (At 10% per annum price inflation, the purchasing power of the dollar falls by 50% every 7.3 years, or by 75% every 14.6 years.) Do you want to be a long-term creditor in dollars? Why?

What else is in the portfolio? What about corporate stocks? Since 1966, the purchasing power of the New York Stock Exchange total average, adjusted for inflation, is down by at least 60%. The Dow Jones Industrial Average almost reached 1,000 in early February, 1966. Today it is under 900. And the Dow Jones Industrial Average shares are the premier stocks: the average NYSE stock has not done so well as the DJIA stocks. Yet consumer prices are up over 85% since 1966.

Is real estate in the portfolio? Then you may be able to do very well. Are the managers making sure that at least 20% of the pension fund is invested in gold and silver coins? If not, why not? In 1965, when I first began to advise people to

buy them, U.S. \$20 gold pieces were selling for \$50 each. Today, they are over \$300. I told the manager of one seminary Investment fund in 1963 that U.S. silver coins would be a good investment at \$1,000 per bag (they sell for \$4,000 today). He scoffed. He was told by a millionaire Christian investment adviser to buy gold coins. He ignored the advice. Naturally, that school's investments went nowhere. Neither did faculty salaries.

Here is the trouble. The managers must abide by such rules as the "prudent investor rule," which actually doesn't exist anywhere in any statute, but it means that the "conventional wisdom" will be adhered to. Second, a pension fund is designed by a committee. (A camel has been described as a horse designed by a committee.) The committee will be made up of businessmen, bankers, and others who know little about the economics of mass inflation, let alone how to hedge one's assets in such a period. Third, the committee must keep a lot of ministers happy, and most ministers are of the "put it in the bank at 5%" perspective.

"But Reverend," the uninformed might ask, "if inflation is forcing up prices at 10% per annum, and your bank pays you 5%, you're going in the hole in terms of real income by 5% per year. How can you come out ahead in the long run?" And the answer would seem to be: "My boy, you exercise faith—faith in God, of course, but above all, faith in the wisdom of your pension fund's managers."

The Litmus Test

Is it possible to determine in advance whether the fund's managers are at least responsible men? I always recommend one key test. Do they advocate that young ministers covered by the church's pension program join the Social Security System? Do they trap newly ordained men for those crucial first 24 months, after which the pastors can never get out of Social Security? Are they advocates of the pseudo-family of Federal power? Do they see nothing financially questionable, let alone immoral, about participating in a statistically bankrupt program of massive wealth redistribution? Are they so naive or uninformed that they believe Social Security will pay off in anything except worthless paper money? If the pension fund's managers have not taken a strong stand against participation by ministers in the Social Security System, then I would trust neither their financial nor moral judgment. Keep your personal retirement capital out of their hands.

If the proposed plan's program predicts or relies upon the assumption that Social Security income will provide part of the retirement income needs of those covered by the plan, then that pension plan is unsound in every sense. Those who are silly or naive enough to rely on such a plan deserve everything they get—which will not be real income. Sad IV, they will wind up charity cases on the deacons' lists, unless they have managed a second pension Plan of their own.

Government charity does not work, since it isn't charity: it's vote-buying through coercion. The pseudo-family, when fully operational, is a real tyranny and a real thief. If your church's pension fund relies on confiscated earnings to "round out the retirement program," stay out of that program. It is built on sand and poor theology. If you are under 55, you will lose your shirt.

If you are personally responsible for your own economic future, before God, then you will take greater care with your assets. If you see a crisis coming—and with 10% price inflation, it doesn't take 20-20 vision or a Ph. D. in economics to spot one—you want to be able to make your own decisions. You can and should consult others. In a multitude of counsel there is safety (Pr. 11:14). But make your own mistakes, and make your own profits. Don't come whining to a committee, twenty or thirty years hence, and ask them why their long-dead (and bankrupt) predecessors did so poorly with your pension fund. You have had your warning.

There is another factor. This one is the most crucial. What if the theology of your church or denomination changes? What if apostates, compromisers, Barthians, antinomians, and general run-of-the-mill bureaucrats take over the affairs of your church? Think of the older men who stayed in the apostate, liberal, corrupt, bureaucratic denominations in this century, fearful of starting over, fearful of losing their pensions. Above all, fearful of losing their pensions. That promise of things to come, that "pie on the earth, by and by," served to keep them inside the institutionally dead-weight denominations. It happened in the 1930's and 1940's. I can see it happening in the 1970's. So can you, if you look around.

Are you so arrogant or foolish to say that it will not happen again, to your denomination, sometime over the life of your pension program's promises? Are you so naive as to tie your conscience in chains, not of silver or gold, but depreciating Federal Reserve Notes? Your pension could become bribe money to buy your silence.

For those of you not tied to a denomination, are you tied to something else? Is your Board of Trustees "taking care of your future"? Watch your preaching, brother, or they may really take care of you. ("Why brother North, are you slandering good Baptists?" No; I'm telling the truth about crooked Baptists, too many of whom run dishonest businesses, make a lot of money, and get voted on the Boards for their efforts. Baptist pastors, they tell me, only get one vote on the Board, one shyster lawyer and one corrupt insurance salesman can outvote him every time. If he preaches the law of God, they will outvote him every time, and he won't be there long, Goodbye pension.)

Finally, pensions encourage men to retire, "Six days shalt thou labor," until you reach 65, after which it's sun and surf, golf and gardening. If Moses had retired at age 65, there would have been no Moses-led Exodus, since he led them out at age 80 (he died at 120. Deut. 34:7). What about Caleb? Did he call for his rocking chair and pension? Why should you do it?

Someday, maybe they'll construct a new attraction at Disneyland Pensionland. It will be nothing except motorized old people rocking silently on dilapidated porches, and whenever anyone approaches, the electronic oldsters hold out a hand and a recorded tape announces: "Hey, buddy, can you spare a pre-1965 dime?"

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P.S. If you think I am exaggerating the perils of the Social Security System, pick up a copy of *Social Security: The Fraud in Your Future*, by Warren Shore (Macmillan, 1975, \$7.95. B66 - 3rd Ave., New York, NY 10022).