California Retired County Employees Association

Representing over 160,000 County Retirees

E.F. (Skip) Murphy, President
Ann Gregory, Vice President
Leon (Sandy) Teague, Secretary
Edward C. (Ed) Morris, Treasurer
William (Bill) de la Garza, Past President

November 23, 2011

The Honorable Gloria Negrete-McLeod
California State Senator
State Capitol, Room 4061
Sacramento, CA 95814

The Honorable Warren Furutani
California State Assemblymember
State Capitol, Room 6025
Sacramento, CA 95814

Re: **Conference Committee on Public Employee Pensions:** 401(k) Plans Fail to Provide for Retirement Security and Promise to be a Major Drag on the Nation's (and California's) Consumer-Driven Economy

Dear Senator Negrete-McLeod and Assemblymember Furutani:

The California Retired County Employees Association (CRCEA) represents over 163,000 retirees of county retirement systems in California that operate under the County Employees Retirement Law of 1937. It is in the interest of our members that our retirement systems are sustainable and properly funded. We applaud the Legislature in creating your Committee and greatly appreciate the resources and time your Committee is devoting to examine public pensions in California.

We agree there are abuses in the current system that must be reformed. But we believe the replacement of defined benefit ("DB") plans with 401(k) plans, either partially or in total, would be damaging to California and its residents. We respectfully request your Committee carefully consider the following:

1. The substitution of 401(k) plans for defined benefit plans in the private sector has been a failure. There is no reason to believe the result will be any different in the public sector.

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2. The cost to provide a benefit under a 401(k) plan is twice the cost of providing the same benefit under a DB plan.

3. 401(k) plans promise to be a huge drag on our nation's (and California's) consumer-driven economy.

DISCUSSION

Loss of Retirement Security. Since their inception in 1978, the transition to 401(k) plans in the private sector is nearly complete. We are now learning from academic studies, polls, and surveys that the result is a disastrous loss of retirement security.

- The National Institute on Retirement Security (NIRS), on May 11, 2011, reported that polling shows that 84% of Americans are in a state of panic about their retirement security.

- The Wall Street Journal, on February 22, 2011, in an article entitled "401(k) Plans Come Up Short," noted the median household headed by a person of age 60-62 with a 401(k) plan has saved less that one fourth (1/4) of what is needed to maintain its standard of living. A study published by the Employee Benefit Research Institute in October 2010 reported that the 2009 year-end median 401(k) account balance was a paltry $17,794.

- The 2011 Retirement Confidence Survey published by the Employee Benefits Research Institute shows that in 1991, 50% of workers expected to retire by age 65. Today, only 23% of workers expect to retire by that age. Could this be part of the reason for our high unemployment rate?

Failure to Provide for Sufficient Contributions. In 401(k)s, many workers contribute only what they can afford in order to pay monthly bills. Two out of three workers under age 30 fail to contribute anything, even if their employer matches their contribution. (Congressional Budget Office, "Utilization of Tax Incentives for Retirement Saving," August 2003).

Failure to Provide Sufficient Investment Returns. From 1999 to 2009 there was effectively no return on the stock market for 401(k)s (the "lost decade"). From October 2007 to January 2009, 401(k)s lost a collective $1 trillion in value, fully a third of all 401(k) balances. ("Big Slide in 401(k)s Spur Calls for Change," The Wall Street Journal, January 8, 2009, based on research at Boston College.) By contrast, government defined benefit plans have, over the long-term, consistently achieved investment returns in the range of 7-8%. ("Investment Returns: Defined Benefit vs. 401(k) Plans," (September 2006), Boston College Center for Retirement Research.)

Several factors explain the lower investment returns suffered by 401(k) plans. There is only one (1) participant in a 401(k) plan, and that person may have no expertise in investing funds. Additionally, as he or she gets closer to retirement, investments must become more conservative. Defined benefit plans go on forever. They can invest more aggressively in a balanced, diversified portfolio for a very long period due to the ability to pool longevity risks. And defined benefit plans have the advantages of (i) professional asset management by trustees and investment managers with clearly

defined fiduciary obligations, (ii) the ability to hedge risks through alternative investment opportunities, and (iii) the ability to negotiate lower asset management fees, with the result that the cost to provide the same retirement benefit is almost twice as much in a 401(k) as in a defined benefit plan.

Further impairing 401(k) investment returns is the individual's lack of leverage to negotiate reasonable investment management fees and a dozen other undisclosed fees incurred in mutual fund investments. Congressional testimony shows these fees can eat up to half of 401(k) investment income over a 30-year span. ("The Shortcomings on Relying on a 401(k) for Retirement," from the 60 Minutes broadcast series entitled "The Collapse," March 23, 2010.)

Failure to Prevent Invading Funds for Non-retirement Purposes. Many 401(k) participants cash out their accounts when they change jobs. By doing so they incur a 10% tax penalty, with the employer required to withhold taxes equal to 20%. Additionally, twenty-one percent (21%) of participants had "loan" balances on their accounts in 2009, as especially in difficult financial times, people are in desperate need of funds due to loss of job, college expenses, etc. ("401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2009," Employee Benefit Research Institute, November 2010.)

Dire Consequences for the Nation's Consumer Driven Economy. 401(k) plans promise to be a future drag on the nation's economy. Consumer spending today accounts for a very significant portion of our nation's economy, 40-70%, depending on the factors used. Defined benefit pensions provide a steady spending stream, even in bad economic times. NIRS data shows that in 2009, DB pensions had a total economic impact of $756 billion; supported more than 5.3 million American jobs; and supported more than $121.5 billion in annual federal, state and local tax revenue. (Meanwhile, 401(k) plans had lost one-third of their value.) With a huge population of retirees struggling to barely get by financially, our consumer-driven economy will be in a disastrous state and there will be more reliance on government-supported services.

Potential Destruction of Defined Benefit Plan Efficiencies: Negative consequences will accompany the shrinking of current DB plans. Reducing contributions to DB plans will not only limit investment opportunities as DB plans are more diversified and provide economic stimulus to a variety of industries rather than just the stock market, and will also lead to increased contributions by both the employers (using taxpayer dollars) and the employees.

CONCLUSION

The private sector's experiment with 401(k) plans has demonstrated they are not viable retirement vehicles when used to fund basic retirements. 401(k) plans have destroyed retirement security in the private sector.

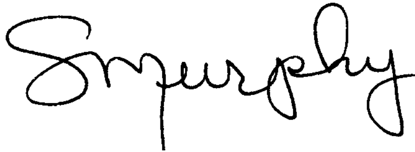
There is no evidence to suggest the results in the public sector would be any different. Further, since the cost to provide a benefit under a 401(k) plan is twice the cost of providing the same benefit in a DB plan, use of the 401(k) would be more costly for both taxpayers and employees.

The California Retired County Employees Association (CRCEA) respectfully requests that your Committee consider the above-described shortcomings of 401(k) plans in your efforts to assure fair and sustainable pensions for the public employees of California.

In the course of our study of pension issues we consulted numerous studies, publications and other resources. We are attaching a list for the Committee's information.

Should you have any questions regarding our research on 401(k) plans, you may contact David Muir, Chair of CRCEA's Retirement Security Committee, at email address dmuir6@gmail.com or telephone number 310-373-7751.

Respectfully submitted,



Skip Murphy,
President

CC: The Honorable Edmund G. Brown, Jr.
Governor of the State of California

The Honorable Joe Simitian
California State Senator

The Honorable Mimi Walters
California State Senator

The Honorable Michael Allen
California State Assemblymember

The Honorable Jim Silva
California State Assemblymember

The Honorable Darrell Steinberg
President pro Tempore

The Honorable John Perez
Speaker of the Assembly

The Honorable Robert Dutton
Senate Republican Leader

The Honorable Connie Conway
Assembly Republican Leader

Mac Taylor
Legislative Analyst

Pam Schneider, Exec. Staff Director
Senate PE&R Comm.

Karon Green, Chief Consultant
Assembly PER&SS Comm.

CRCEA Letter to Conference Committee on Public Employee Pensions

STUDIES, PUBLICATIONS, AND OTHER RESOURCES

401kplanning.org, "What Does it Mean to be Vested in My 401k Plan?"
"You do not necessarily have an immediate right to contributions made by your employer, however. In traditional 401(k) plans, the employer can design your plan so that employer contributions become vested over time, according to a vesting schedule.
Employers have a choice of 2 different vesting schedules for employer matching 401(k) contributions. Your employer may use a schedule in which employees are 100 percent vested in employer contribution after 3 years of service, called *cliff vesting*. Under *graduating vesting*, an employee must be at least 20 percent vested after 2 years, 40 percent after 3 years, 60 percent after 4 years, 80 percent after 5 years, and 100 percent after 6 years."

401kfocus.com, "401k Questions"
"By law, all participants must be fully vested in the plan matching contributions after six years of service and other employer contributions after seven years with the company."

60 Minutes on CNBC, March 23, 2010, Steve Croft, "The Collapse" "The Shortcomings on Relying on a 401(k) for Retirement"

- ½ of life savings lost in a few months for those 62-70
- Wall Street pounced on 401(k)'s looking at trillions of dollars with unsophisticated investors
- 20-30 main mutual funds (1/2 are dogs)
- raid on funds by Wall Street by undisclosed dozen fees
- No simple English, not on prospectus, no transparency
- Fees include Trustee, Legal, Transactional, Bookkeeper, Stewardship, Finder's fee, etc.
- Congressional testimony showed that these fees can eat up to ½ of the income over a 30 year span
- The financial lobby has prevented any bill in Congress to disclose these fees
- Future? For those in the 50-60's who have lost money, they can't get it back-can't count on a secure retirement

abcnews.com, 2/18/11, "Working in America: Public vs. Private Sector"
"Average Annual Wage
Government (all types) $47,552
Private (total sector) $45,155"

adamkoowealth.com/learning-from-the-lost-decade-of-1999-2009/ "Lessons from the Lost Decade of 1999-2009"
"2009 ends a decade (1999-2009) where for the first time in history, the S&P 500 index ended with a loss. It is the only time the Dow Jones ended a 10-year period with a loss since the great depression (1930-1940)."

americanprogress.org/issues/2011/02/gruber_mandate.html, "Health Care Reform Without the Individual Mandate"
Indeed, fidelity data show that among 20 to 29-year old employees, only 30 percent sign up for a 401(k) without auto-enrollment."

bankrate.com, "Americans plan to work through retirement" Princeton survey Research Associates International
"As depressing as the thought of working in perpetuity may be to the lazier workers among us, work is a powerful factor in our identity and well-being. So of the 75 percent who expect to work for as long as they can, 39 percent say it's because they like to work. One-third (32 percent) say it's because they'll need the money.
Interestingly, only 15 percent of today's retirees actually work to supplement their income."

Business Week, 8/29/2009, "Get It Straight: Consumer Spending is "not" 70% of GDP"
"But in fact, personal consumption expenditures (PCE) in the U.S. is a grab-bag category which includes all sorts of money--like Medicare spending by the government--which never passes through the hands of households. PCE also includes all the consumer goods imported into the U.S.--cars, computers, clothing, and the like—which create very little economic activity in this country. In fact, by my very rough calculations, the money that people actually pull out of their paychecks and bank accounts to pay for domestically-produced goods and services drives about 40% of the economic activity in this country."

Business Week Blog, 10/8/11, "What's a More Typical 401(k) Balance: $12K or $86K?"
"Several readers asked how it is possible that the typical U.S. worker had an average balance of $86,513 in their 401(k) account at the end of 2008, based on data this week published by the Employee Benefits Research Institute and the Investment Company Institute. *Answer:* Great question. So let's dig a bit deeper; I included a link to the EBRI/ICI report. You'll see that this research covers people who consistently held a 401(k) from 2003 to 2008. And while the AVERAGE balance for those folks exceeded $80,000, their MEDIAN 401(k) account balance was $43,500 at yearend 2008. But here is the number that might make the most sense to readers: The median account balance for ALL 401(k) participants (based on a sample of six million plan participants in the database of 24 million) was a mere $12,655."

Business Wire, 6/22/11, "Transamerica Study Illuminates Severe Impact of Unemployment on Displaced Workers' Retirement Outlook"
"The study of 668 displaced workers who are either unemployed or underemployed—part of the 12th Annual Transamerica Retirement Survey—found that the majority (67 percent) of these displaced workers are less confident in their ability to achieve a financially secure retirement since the recession began.
The survey's findings illustrate the impact on the retirement outlook of un/underemployed workers. Just over half (53percent) of those who are unemployed or underemployed were offered a 401(k) or similar plan by their most recent employer, and of those who participated in the plan, over one-third (35 percent) indicated they have taken a partial or full withdrawal since becoming unemployed or underemployed. Unemployed workers (42 percent) are more likely to have taken a withdrawal than underemployed workers (28 percent). As length of un/under employment extends to beyond one year so does the likelihood of taking a withdrawal form a 401(k) or similar retirement plan account: nearly four in ten (39 percent) who have been un/underemployed for over one year reported taking a withdrawal compared to one-fifth (20 percent) of those who have been un/underemployed for less than one year."
"What role can society play in helping these displaced workers improve their retirement prospects? Policymakers

- Expand the Saver's Credit by raising income eligibility requirements so more filers are eligible;
- Expand Catch-Up Contributions by raising limits and lowering the eligible age;
- Extend the 401(k) loan repayment period for terminated plan participants and eliminate the six-month suspension period following hardship withdrawals;
- Require retirement plan statements to state participant account balances in terms of a lifetime income as well as a lump sum; and
- Expand retirement plan coverage to more workers by expanding the tax credit for employers to start a plan and facilitating the opportunity of employers to participate in existing plans by implementing reforms to multiple employer plans."

calcxml.com & money-zine.com Online Retirement Calculators for 401(k) Plans
These online calculators provide the worker an idea of how much they will need to contribute to their 401(k) plan over their career to achieve a monthly amount at time of retirement. For example, current age 35, income $48,000, inflation 3%, retirement age 65, 20 years post income need, income replacement 75% including Social Security, pre and post retirement investment return 3%. Using these assumptions would require a 401(k) balance at time of retirement of $856,368.

Center for Retirement Research, September 2006, "Investment Returns: ?Defined Benefit v.. 401(k) Plans"
1988-2004 Defined Benefit Plans Arithmetic Mean 8.3% (unweighted)
1988-2004 Defined Benefit Plans Arithmetic Mean 10..7% (weighted)

Congressional Budget Office, August 2003, "Utilization of Tax Incentives for Retirement Saving"
1997, Category: Under 30, participation rate 35%
2000, Category: Under 30, participation rate 33%

Congressional Budget Office, March 2007, Update to 2003 Report
Congressional Budget Office, October 2011, Update for 2006 Report

doctorhousingbubble.com "The $9.1 trillion bailout price tag—American households have lost $6.8 trillion in residential real estate values while mortgage debt has increased"
"At the peak of the housing bubble in 2006 Americans had $13 trillion in equity in their residential real estate. At the peak, total residential mortgage debt stood at $9.8 trillion. Today, American households have $6.2 trillion in equity while mortgage debt has grown to $10.3 trillion. In other words American households have faced a real financial loss of $6.8 trillion."

ebri.org, Employee Benefit Research Institute, "Fast Facts"
"According to the survey, the age at which workers expect to retire is gradually rising. In 1991, half of workers planned to retire before age 65 (50 percent), compared with 23 percent in 2011."
"According to 2011 Retirement Confidence Survey (RCS), more workers than ever state that they are a lot (40 percent) or a little (30 percent) behind schedule—fully 70 percent they are not where need to be. The percentage of workers who say they are ahead of schedule has changed little…However, the portion of those saying they are on track has declined from 37 percent in 2005 to 21 percent in 2011."

ebri.org, Employee Benefit Research Institute, November 2010, "401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2009"
"in 2009, 21 percent of all 401(k) participants eligible for loans had a loan outstanding against their 401(k) account."

Employee Benefit Research Institute, "Retirement Confidence Survey, 2011 FCS Fact Sheet #5"
"The age at which workers expect to retire is gradually rising. In 1991, half of workers planned to retire before age 65 (50 percent), compared with 23 percent in 2011."

fidelity.com/estimator/gie/quoteresults "Guaranteed Income Estimator"
This website provides annuity information for many plans and payment considerations. For instance, if you wanted to purchase an annuity that would provide a flat amount of $1,200 per month (no inflation factor) for yourself and spouse, the purchase amount is $249,489. Fidelity provides the choices and MetLife is the annuity company.

Financial Accounting Standards Board, 2011, "Summary of Statement No. 132 (revised 2003)"
"Differences between This Statement and Statement 132
This Statement retains the disclosures required by Statement 132, which standardized the disclosure requirements for pensions and other postretirement benefits to the extent practicable and required

additional information on changes in the benefit obligations and fair values of plan assets. Additional disclosures have been added in response to concerns expressed by users of financial statements; those disclosures include information describing the types of plan assets, investment strategy, measurement date(s), plan obligations, cash flows, and components of net periodic benefit cost recognized during interim periods. This Statement retains reduce disclosure requirements for nonpublic entities from Statement 132, and it includes reduce disclosures for certain new requirements."

Frontline, 5/16/06 "Crisis in the Making"
Presentation discussed why corporations moved out of defined benefit plans and into defined contribution plans. Look at ERISA funding rule, bankruptcy laws, Pension Guarantee Corporation, using Chapter 11 as a strategic move to game bankruptcy laws and avoid paying retirements. 401(k) was designed as a tax shelter for fat cats (loop hole). The defined contribution plans cost the employer ½ of the cost of a defined benefit plan-i.e. DB plan was 6-8% of payroll, and DC plan is now only 2-3% of payroll. Shifted retirement cost burden to employee-was worker 11%, company 89% under defined benefit plan vs. 2006 stats of 51% worker, 49% company.

gallop.com, 7/20/10, "six in 10 Workers Hold No Hope of Receiving Social Security"
"Six in 10 Americans who have not yet retired believe they will get no Social Security benefits when they retire, more pessimistic than at any time since Gallup began asking this question in 1989. Similarly, retired Americans are now significantly more likely than they were five years ago to believe their existing Social Security benefits will eventually be cut."

"How Workers Use 401(k) Plans: The Participation, Contribution, and Withdrawal Decisions"
"Sixty-five percent of eligible workers participate in 401(k) plans. Employee participation rises with income, age, job tenure, and education. While participation also rises if the employer matches contributions, 401(k) participation does not grow with the rate of matching. Our findings suggest that many workers, particularly those with low incomes, do not use 401(k) plans to save for retirement."
"While retirement planning choices are increasingly becoming the responsibility of individual workers, many either are not participating or are participating in a minor way. Over one-third (35 percent) of workers sponsored for a 401(k) plan decline to participate. Workers with employee matches are also more likely to participate, although no evidence is found that the level of the employer match is positively correlated with participation."

iafflocal3878.org/docs/introtopensions.pdf "Introductions to Pensions"
"State and local pension plans in the United States maintain assets that total almost $3 trillion and serves close to 26 million Americans."
"When planning for retirement the "three-legged stool" model is commonly used. The three –legged stool consists of the three most common sources of retiree income and includes Social Security, employee pensions and personal savings."
"Research has shown that retirees who have a defined benefit plan are more likely to achieve financial security in retirement than those with defined contribution, cash balance or other pension plans. Approximately 35% of those born between 1946 and 1954 are at risk of being unable to maintain their pre-retirement standard of living upon retirement. That number increases dramatically to 49% for those with defined contribution plans. For households with a defined benefit plan, the number drops to 15% and for those with a defined benefit plan and a supplemental defined contribution plan the number drops even further down to 12%."
"State and local pension expenditures have a large multiplier effect. Studies have shown that the pension expenditure multiplier that for each dollar paid out in pension benefits, $2.36 in total economic output was supported."
Chart "Comparing Defined Benefit (DB) and Defined Contribution (DC) Plan"

Los Angeles Times, 4/25/11 "Public employee pensions should be cut, voters say"
"Seventy percent of respondents say they supported a cap on pensions for current and future public employees. Nearly as many, 68 percent, approved of raising the amount of money government workers should be required to contribute to the retirement."
"Voters back an integration of such plans into the government retirement system, with 66 percent supporting a blend of the traditional pension and a 401(k)."
Majorities of Republican and nonpartisan voters favored every potential money-saving pension charge they were asked about."

moneychimp.com/features/market_cagr.html "Technology's Innovation Capital"
"This calculator lets you find the annualized growth of the S&P 500 over the date range you specify.
January 1, 1999 to December 31, 2009: $1.00 grew to $.83 (adjusted for inflation)
January 1, 1999 to December 31, 2009: $1.00 grew to $1.10 (no inflation adjustment)"

money-zine.com, "401k Contribution and Catch up Limits"
"For quite some time, the 401k contribution limits had suffered from a lack of attention. Specifically, they were moving up each year at too slow of a pace. Even those investors that contributed faithfully to these accounts, and at the plan limits, were not seeing enough growth to ensure a financially secure retirement."

National Committee to Preserve Social Security and Medicare, "Social Security Primer"
"At the end of 2010, nearly 54 million people were receiving approximately $702 billion in Social Security benefits: 37 million retired workers and their dependents, 6 million survivors of deceased workers, and 10 million disabled workers and their families. During the year, an estimate 157 million people had earnings covered by social Security and paid payroll taxes."
"In 2010, the average monthly retirement benefit was $1,175 for an individual and $1,908 for a couple, both receiving benefits. Disabled workers received an average of $1,068 per month, while the benefit for a widow with two children averaged $2,409 per month. The value of the life insurance provided to survivors through Social Security is over $476,000 and the value of disability protection for a young disabled worker with a spouse and 2 children is over $465,000."
"Total income to the Social Security Trust Fund in 2010 was $781 billion and total expenditures (benefits and other expenses) were $712 billion, resulting in a surplus of $69 billion. The Trust Funds were credited with $118 billion in interest earnings, which represented an effective annual rate of return of 4.6 percent. Surpluses over the past two decades built up the assets in the Trust Funds to $2.6 trillion at the end of 2010. These surpluses will continue for the next decade, reaching a peak amount of $3.7 trillion in 2022."
"One in seven Americans will die before reaching age 67."
"Three out of ten of today's 20-year-olds will become disabled before reaching age 67. Yet 75% of the private sector workforce has no long-term disability insurance."
"Nearly two out of every three Social Security beneficiaries receive over half of their income from Social Security, and it's the only source of income for nearly one-in-five seniors. Without Social Security, older Americans would live in poverty."
"And nearly three out of every four people age 85 or older are women."
"Women who are employed full-time earn almost 25% less than men."
"The typical woman is in the workforce for 32 years, compared to 44 years for men."
"On average, only 28% of women received income from pensions, compared to 43% of men."

National Committee to Preserve Social Security and Medicare, "The Future Cost of Medicare: Why Seniors have a Stake in Health Care Reform"
"Among 30 countries with advanced economies, the United States is 5th from the bottom in the generosity of its benefits for average earners, and single older women have the lowest income relative to married couples in cross-national comparisons of Western industrialized nations."

"Almost two out of three elderly households have incomes under $20,000, and they are already spending 30 to 50 percent of their income on health care."

National Institute on Retirement Security, 2009, " Pensionomics-Measuring the Economic Impact of State and Local Pension Plans"
"Had large multiplier effects. Each taxpayer dollar invested in state and local pensions supported $11.45 in total economic activity, while each dollar paid out in benefits supported $2.36 in economic activity."
"Many experts consider a replacement ratio of 80% of the retiree's working income adequate to maintain pre-retirement standard of living. The 80% replacement ratio should include all sources of income including Social Security, pension(s) and personal savings."
"Defined contribution plans are useful in providing supplemental retirement benefits, but there are distinct advantages of maintaining public employees defined benefit pension plans and disadvantages against replacing them with defined contribution plans as the primary retirement plan. Eliminating a defined benefit plan and switching to a defined contribution plan is a lose-lose situation for state and local governments, their employees and taxpayers."
"However, there are serious risks associated with state or local governments converting to a defined contribution plan. Two such risks include the likelihood of lower investment returns and higher administrative costs, both of which are associated with defined contribution plans."

National Institute on Retirement Security 2011, March 2011, "A Roadmap for Policy Makers"
"What's even more startling is that only 59% of Americans have access to *any* type of employer-sponsored retirement plan, and only 45% of employees participate in a retirement plan at all."

"Some 84% are concerned that current economic conditions are impacting their ability to achieve a secure retirement, with more than half (54%) of Americans very concerned."
"The WSJ also reports that the financial crisis has exacerbated the savings shortfall. What's more, the problem of low individual savings has been worsened by employers reducing or eliminating 401(k) matching programs in response to the economic crisis."
"Nearly three-quarters of American believe that stock market volatility makes it impossible for the average American to predict how much money they will have in their nest egg when they retire, underscoring the potential flaws of the current retirement system."
"Nearly three-quarters polled feel most Americans won't be able to make up financial losses before they retire."

National Institute on Retirement Security "Executive Summary"
"In the public sector, although the average monthly benefit is somewhat modest, these benefits go a long way in ensuring the financial security of nearly 27 million Americans. For governmental employers, traditional pensions remain an attractive recruitment and retention tool, particularly given that public sector workers typically receive lower wages than their private sector counterparts. For taxpayers, the pooled nature of DB plans makes them a cost-effective way to provide retirement benefits at nearly half the cost of defined contribution (DC) accounts."
"Many experts believe a replacement ratio of between 77% to 90%, depending upon household income, to be adequate."
"It should be noted that as many as 30% of public sector employees do not participate in Social Security."
"Twenty-five year average of six governmental study plans (defined benefit plans) as of 2009 was 9.3%."

NIRS, March 2011, "Who Killed the Private Sector DB Plan?"
"There are several reasons. First, increased regulations have been put in place since 1970s, which have had the unintended consequences of negatively impacting both the firm's cash flow and the volatility of plan funding. Secondly, the past few decades have seen large industry shifts in the private sector, which resulted in fewer unionized jobs and fewer new industries taking up DB pension plans. Finally, evidence suggests that many employers may have imperfect knowledge of their employee's preference for DB

pensions. It is interesting to note that each of these reasons has little to do with the underlying economics of maintaining DB pension plans."
"For example, Husttead finds that DB regulations enacted since the 1970s-from several legislative acts in the 1980s to the Pension Protection Act of 2006 (PPA)-were increasingly complex, and increased regulatory burden of plan sponsors. Such regulations caused complicated funding rules, accounting rules, and even operational requirements. These rules have been onerous to employers who would prefer to have steady, easily estimable costs from year to year."
"In Fact, in June 2010 President Obama signed the Pension Relief Act of 2010, which enables plan sponsors to fill funding gaps more gradually than the requirements set out by the PPA."

NIRS, August 2008, "A Better Bang for the Buck"
"What is an "adequate" retirement benefit?"
"Experts generally believe that in order for a retiree to maintain the same standard of living enjoyed during working years, income from all sources (Social Security, DB pensions, DC savings plans, etc.) should replace roughly 70-90 percent of pre-retirement income."
"In our discussion, we target a replacement rate of 83% of pre-retirement income for both the DB and the DC plan.
"Researchers have found that when employers move out of DB and into DC plans, they almost always cut the average employee benefit in the process."

NIRS, May 2008, "Retirement Readiness"
"The authors find that the shift from DB pensions to DC plans was accompanied by a significant reduction in total retirement wealth."
"The afore-mentioned Boston College studies find that between 44% and 61% of households are at risk of being unable to maintain their living standards in retirement, even if they work to age 65, plan to consume all their financial assets, and take out reverse mortgages to "Monetize" their housing wealth."

Smart Money, January 25, 2011 "Got a 401(k) Question?
"Can I borrow from my 401(k)?
- Most plans do allow you to borrow from your 401(k). And it can be tempting (after all, you're borrowing from yourself.) You can generally borrow half your vested balance or $50,000, whichever is less. But think long and hard before tapping this nest egg. For starter, you're going to miss out on that tax-deferred compounding. But that's not the only downside. Employers often halt your match while a loan is outstanding. And if you get laid off, fired or leave the job for any other reason, chances are that that loan is going to be called in, and fast. What happens when you can't repay the loan? You'll owe income taxes plus a 10% early withdrawal penalty."

"What are hardship withdrawals?
- Under certain circumstances, some companies will allow you to permanently withdraw money from your 401(k), even without leaving your company. But unless you really have to, it's a truly rotten idea. That's because you'll generally owe income taxes plus a 10% early withdrawal penalty. A company can determine its own definition of "hardship", but many use what are called the "safe harbor rules" which allow withdrawals for the following reasons:
  - To pay medical expenses
  - To cover the down payment or to avoid eviction or foreclosure on your primary residence
  - To pay college tuition
  - To cover funeral expenses for a family member

theeconomiccollapseblog.com "22 Statistics About America's Coming Pension Crisis That Will Make You Lose Sleep At Night"
"Approximately half of all workers in the United States <u>have less than $2000</u> saved up for retirement."
"According to one recent survey, 36 percent of Americans say <u>that they don't contribute anything at all</u> to retirement savings."

“According to one recently conducted poll, 6 out of 10 non-retirees in the United States believe that the Social Security system will not be able to pay them benefits when they stop working.”
“35% of Americans over the age of 65 rely almost entirely on Social Security payments alone.”

The Sacramento Bee, 5/1/11 “Myths about state workers mask gross inequalities” by Saree Makdisi UCLA

“The result is the growing rallying cry that state workers should be stripped of pension and health care benefits that most private sector workers lost many years ago, so that they too can join the race to the bottom of wretchedness to which more and more American seem committed.
State workers aren’t, in fact, the only Americans who can count on stable and defined retirement. Corporate CEOs have made sure to retain for themselves the security and stability of fixed retirement deals that they receive irrespective of the performance of the companies under their watch, even as they force rank and file employees to entrust their futures to the uncertain lottery of the 401(k) plan. The former heads of Fannie Mae and Freddie Mac left with severance and retirement packages worth millions of dollars each; the former head of GM left with $20 million; the former head of Citigroup with $40 million; the former head of AIG with $47 million; the head of Bank of America with almost $84 million; the head of Merrill Lynch with $160 million. And the list goes on. How come there is no resentment about those benefits?"
“In fact, the extraordinary bailout of the financial sector was financed by ordinary tax-paying Americans- to the tune of almost $13 trillion, according to Bloomberg. That's $42,000 for every man, woman and child in the United States; probably the single most egregious transfer of wealth from poor to rich in the history of the world."
"Today, the top 1 percent of Americans own about a third of the nation’s wealth; by contrast, the bottom 80 percent own less than 20 percent."

The Sacramento Bee, 3/7/11 “Review paints brighter pension picture”

“Pension contributions from state and local employers aren’t in themselves blowing up budgets. They amount to 2.9 percent of state government spending, on average, according to the National Association of State Retirement Administrators. The Center for Retirement Research at Boston College puts the figure at 3.8 percent.”
“The Bureau of Labor Statistics estimates that 91 percent of full-time government workers have access to defined-benefit plans.”
“In 1980, 84 percent of workers at medium and large companies in the United States had a defined-benefit plan like those still predominant in the public sector. By last year, just 30 percent of workers in these larger companies were covered under such plans.”

The Sacramento Bee, 5/6/11 “Study heats up pension debate” California Foundation for Fiscal Responsibility

“A 45-year-old California state employee halfway through a 30-year career making $60,000 per year - $5,000 less than a private sector counterpart – receives on average $46,492 in health, retirement and other benefits, for total compensation of $106,492, according to the study.
The private-sector worker receives, on average, $31,737 in benefits for $96,737 in total compensation.”

The Sacramento Bee, 8/28/11 “Pension changes can’t wait” Daniel Hancock, Little Hoover Commission

“It is often publicized that less than 2 percent of all CalPERS retirees, beneficiaries and survivors receive $100,000 pensions. Among new retirees in 2009-10, however, the “$100,000 Club” accounted for roughly 16 percent of the dollar value of benefits to that year’s cohort.
Retirees with more than 25 years of service represented just one-third of employees who left the workforce in 2008-09, but they represent two-thirds of the total cost of all benefits paid to that year’s retiree’s cohort. The average pension for a worker with more than 30 years of service is now more than $66,000 a year, according to CalPERS.

Pension "spiking" remains widespread in state and local pension plans, with retirement formulas frequently based on the single-highest year of compensation, unused sick leave converted to service time, sweeteners added for working longer careers, and in many local public safety agencies, extra pay- for uniform and car allowances-being factored in that boost pension payments."

The Wall Street Journal, 9/11/11 "Retiring Baby Boomers Come Up Short of Cash"
"Increasingly, alarmed investors are finding that "guaranteed" payouts offer only penny-ante 1% and 2% returns."
"If a couple had retired in 1991 and put $1 million in 10-year Treasury bonds, they would have received annual payouts of around $84,000. A couple trying the same maneuver this summer would reap barely over $20,000 a year packages."
"A 65 year-old man who invested $100,000 in an "immediate" annuity-which begins paying the investor right away-would get 12% less income annually than if he'd invested the same amount five years earlier."

The Wall Street Journal, 2/22/11, "401(k) Plans Come Up Short"
The median household headed by a person aged 60 to 62 with a 401(k) account has less than one-quarter of what is needed in that account to maintain its standard of living in retirement, according to data compiled by the Federal Reserve and analyzed by the Center for Retirement Research at Boston College for The Wall Street Journal. Even counting Social Security and any pensions or other savings, most 401(k) participants appear to have insufficient savings. Data from other sources also show big gaps between savings and what people need, and the financial crisis has made things worse. This analysis uses estimates of 401(k) balances from the end of 2010 and of salaries from 2009. It assumes people need 85% of their working income after they retire in order to maintain their standard of living, a common yardstick."
"They were a gold mine for money-management firms. In 30 years, the 401(k) went from a small program to a multi-trillion-dollar industry supporting thousands of financial planners and money managers."
"Recently, Vanguard has begun urging people to contribute 12% to 15%, including the employer contribution, because of the stock market's weak returns and uncertainty about the future of Social Security and Medicare."

The Wall Street Journal, 1/8/09, "Big Slide in 401(k)s Spur Calls for Change", based on research at Boston College
"That seems like such a fundamental flaw, says Alicia Munnell, director of Boston College's Center for Retirement Research. It's so crazy to have a system where people can lose half their assets right before they retire."
"Part of the problem, critics say, is that the 401(k) is trying to fill a role it was never designed to play. The plans were born with little fanfare in 1978 when Congress added section 401(k) to the Internal Revenue Code. Initially, many employers saw them as company-funded defined-benefit plans and Social Security—and a way for executives to stash some of their compensation in tax-deferred accounts. But the legislation marked the beginning of the end of professionally managed pensions that provided guaranteed benefits to retirees. As big employers recognized that 401(k)s are substantially cheaper than defined-benefit plans, the employee-managed accounts moved from supporting role to center stage. Many workers didn't even participate in the voluntary plans, which meant that employers didn't have to make matching contributions. What's more, employers aren't required to contribute to plans at all."
"Over the past year, about one in five workers age 45 or older have stopped contributing to a 401(k), IRA or other retirement account, according to a recent survey commissioned by AARP, an advocacy group of older people."
"Matching contributions from employers are a major incentive for workers to contribute to their plans. The typical matching contribution amounts to 3% of pay. But some employers are cutting back. General Motors Corp. and FedEx Corp., for example, are suspending 401(k) matching contributions."
"Boston College's retirement-research center recently ran scenarios that assumed workers had contributed 6% of pay to a plan for 40 years, had invested in a target-date fund, had never touched their savings until

retiring and had annualized assets at time of retirement. The chunk of pre-retirement income these savers could replace in retirement varied dramatically depending on when they retired. Those retiring in 1948 could replace just 19%; those retiring in 1999, 51%; and 2008 retirees, 28%."

Transamerica Center for Retirement Studies, "Emerging from the Recession: Rising Employer Optimism and Renewed Commitment to Retirement Benefits"
"The majority of employers continue to believe their employee-funded retirement plan package is important to their ability to attract and retain employees. The majority of employers continue to believe that 401(k) or other employee-funded retirement plans are important to their employees."
"Only 58 percent of companies are confident in their employees' ability to achieve a comfortable lifestyle in retirement."

U.C. Berkeley Center for Labor Research and Education, October 2011, "Meeting California's Retirement Security Challenge"
"California's Retirement Security Challenge"
"Startlingly, nearly half of today's workers will be poor or near poor if they retire at age 65, given current patterns in workplace retirement plan coverage, earnings, savings, and debt."

U.C. Berkeley Labor Center, October 2100, "Policy Brief-the Wrong Target: Public Sector Unions and State Budget Deficits"
Heading: " Budget woes due to bursting of the housing bubble and the great recession not public sector workers and their unions."
"As we stated up front, the recession that officially lasted from December 2007 to June 2009 was the most severe downturn since the Great Depression—and the bursting of the housing bubble and the subsequent financial collapse caused it. Regardless, some elected officials and media have falsely suggested that collective bargaining for public sector workers caused state and local budget deficits."
"Given that the bursting of the eight trillion dollar housing bubble was the precursor to the Great Recession, it is necessary to assess the role of falling house prices in state budget woes."

U.S. News, 5/10/11, "Have 401(k)s Recovered Yet?"
"Retirement accounts held about $8.7 trillion in the third quarter of 2007."
"Retirement accounts finally rebounded to $8.7 trillion in the first quarter of 2011."

Wikipedia, "401(k)"
"Employer contributions with the 401(k) can vary, but in general the 401(k) had the effect of shifting the burden for retirement savings to workers themselves. In 2011, about 60% of American households nearing retirement age have 401(k)-type of accounts.
The first cohort of workers to widely adopt this style of retirement plan are beginning to retire, and the plans now appear to generally be falling short. According to a February 19, 2011 article in the Wall Street Journal, "the median household headed by a person aged 60 to 62 with a 401(k) account has less than one-quarter of what is needed in that account to maintain its standard of living in retirement. This according to a study commissioned by the Journal, and conducted by the Center for Retirement Research at Boston College. This assessment is not correct. The typical saver has only accumulated one fifth of what they need, since the formula for adequacy is at least 10 times "final pay" or your salary near retirement and the typical participant earns $65,000 and has only saved about $120,000, according to the Survey of Consumer Finances."