Train Wreck Ahead for the Middle Class and Retirees

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Some of those who are adamantly opposed to public sector defined benefit pension plans are using propaganda and voter initiatives to try and restrict retirement benefits, to close public pensions systems to new employees, and to undermine pension protections in the State constitution. These "public pension reformers" claim that since most defined benefit pensions have been eliminated in the private sector, the same should now occur in the public sector. While continuously attacking the long term "unfunded liability" of public pensions, these self-proclaimed reformers never address the equivalent "unfunded liability" (i.e. the massive shortfall in retirement accounts) of all the private sector workers who have lost their defined benefit plans. Who ultimately will pay that unfunded cost? Frankly, the elimination of pensions in America is proving to be a failure that will lead to widespread poverty for the elderly and an overwhelming burden on government's social programs—a taxpayer cost! Businesses will lose a strong customer base and associated profits, government will lose significant tax revenue.

CRCEA's Retirement Security Committee has previously published two papers about the "train wreck" ahead for those who will be retiring without defined benefit pension plans and relying on 401(k) plans for their retirement security. Our first white paper dealt with the effect on the "individual" and the second with the effect on the "economy". While our committee's initial thrust was to provide a "push back" against the attacks on public service retirees and defined benefit pension plans, our research has uncovered a much broader set of concerns for future retirees and retirement security in America. The efforts to undermine public pensions are but one part. The increasing wealth gap, the erosion of the middle class, government actions and inactions, and a myriad of corporate schemes are some of the other parts of a bigger picture.

The following are some disturbing facts related to this topic and draw into question why America is allowing the continuation of activities that undermine our basic retirement security. By connecting the dots, the big picture begins to emerge. If we don't like that picture, we need to become advocates for change and fight to protect and to rebuild our pension systems.

Some Facts Impacting Workers

- In 1975, **73% of private sector workers and 98% of public workers had defined benefit plans**. By 2011, **3% of private sector workers had a defined benefit plan** only, 31% had a defined contribution plan only, and 11% had a combination of both.[1] [2]
- **50% of Americans have no workplace retirement account** and **34% of the workforce has no savings** set aside specifically for retirement. [3]

- The U.S. **personal savings rate has plummeted from 10%** in the 1970's, 1980's, and 1990's **to a low of 1% in 2005 and around 5% today** (about ½ of the historical personal savings rate). The **average family has only $7,000 in savings**. [4] [5]
- **401(k)'s have already proved a failure** as employees **save too little, too late, spend the money before retiring and can see their savings erased when the market nosedives**. [6]
- **Loans on 401(k)s are popular**, especially those in their 40's earning $40,000-$60,000 annually**. 28% of 401(k) participants had an outstanding loan** in 2010, representing 21% of participants' total retirement assets. [7]
- **401(k) fees are very high**. A PBS report shows how an ordinary American can pay $109,000 in retirement fees to their mutual fund advisor. An AARP study found that **70% of mutual fund savers were not even aware** they were paying any fees at all. [8] [9]
- Many 401(k) participants convert their balances to annuities to receive a stream of income when retiring. With the popular **single life annuity, income stops when you die and the lump sum money you gave to the company now belongs totally to them**. [10]
- **64% of Americans believe the stock markets are rigged** against them and for insiders. [11]
- **High Frequency Traders** (a handful of insiders that operate at faster speeds in "dark pools") **make tens of billions of dollars** every year by front-running stock orders (flash orders) of large financial institutions and ordinary investors. In 5 ½ years, one of the largest high frequency traders never had a losing day. [12]
- The Securities & Exchange Commission (SEC) oversees high-frequency trading, but over **200 SEC staffers have left their government jobs since 2007 to work for the high-frequency trading firms**, or for the firms that lobby Washington on their behalf. [13]
- A **"flash crash" occurred on May 6, 2010** that caused the stock market to fall 600 points in a matter of five minutes before bouncing back up 15 minutes later. Individual stocks experienced unheard of price swings, shaking confidence in the markets. [14]
- As a reflection of the lack of trust in the markets, the percent of **Americans investing in the stock market has dropped from 67% in 2002 to around 52-54% today**. [15]
- **67% of younger workers leave their job prior to "vesting"** in their retirement plans and when they don't vest, they forfeit the employer contribution and the earnings. **The employer gets back all their contributions and the tax-free earnings**. [16]
- The U.S. Bureau of Labor found that **employees change their job 7 times by age 32.** [17]
- The Social Security Fact Sheet says **1 in 4 of today's 20 year-olds will become disabled** (and 1 in 8 will die) before reaching age 67. The **Social Security Disability Insurance Trust Fund is on the brink of insolvency** and will likely be exhausted by 2016. [18] [19]
- **68% of private sector employees have no long term disability insurance**. [20]
- **College costs have tripled** since the 1980's and **student loans have gone from $300 billion to a staggering $1.1 trillion** in 10 years (now higher than credit card debt). [21]
- More than **99.9% of those filing bankruptcy don't get their student loans forgiven**. [22]
- **Health insurance premiums increased by approximately 150%** in the last 10 years and retiree health insurance **subsidies are disappearing** in both private and public sectors. [23]

- **35% of Americans that have a credit file have debt "in collections"** (over 180 days past due) and another **5.3% have delinquencies** between 30-180 days past due. [24]
- **California's poverty level is already up to 25%** according to the Census Bureau; it's the highest level in the nation. [25]

Some Facts Impacting the Country

- During the 2000's, **"American" companies cut their workforce in the U.S. by 2.9 million workers while increasing employment in foreign countries, like communist China, by 2.4 million workers**. [26]
- **307 "American" companies have moved over $2 trillion offshore** to avoid paying U.S. income taxes. President Obama recently said U.S. corporations that adopt foreign addresses to avoid taxes are **unpatriotic** (it's like renouncing their citizenship). [27] [28]
- This trend does not just apply to corporations, increasingly **millionaires and billionaires are actually renouncing U.S. citizenship** and taking their wealth out of the U.S. [29]
- Unless Congress acts soon, provisions of the **Pension Protection Act of 2006 will sunset this year which could affect 10 million participants of multi-employer defined benefit plans**. The Government Accounting Office states that failure for Congress to act could result in participants seeing their benefits reduced to **less than $125 per month**. [30]
- The **national debt has increased by over $10 trillion** in the last 10 years to $17.7 trillion. That equals over **$150,000 per taxpayer**. [31]
- The **federal government borrowed 46 cents of every dollar spent** in fiscal year 2013.[32]
- **Homeowners' equity fell from $13.5 trillion in 2006 to $5.3 trillion by 2009** (61% decline in equity) and 2 million U.S. homes were foreclosed on in 2011 alone. [33]
- **Americans lost $16 trillion in total household wealth** after the 2008 financial crash. [34]
- From 2001-2007, the **top 1% of Americans households captured ½ of the nation's income growth**, contributing to the nation's wealth gap. [35]
- By 2008, **corporate executives received more than 1/3 of all U.S. pay** ($2.1 trillion out of $6.4 trillion), contributing to the nation's wealth gap. [36]
- Fortune 500 **CEO's now average $10.8 million** in compensation a year, **257 times the average worker pay**, contributing to the nation's wealth gap. [37]
- **1/3 of all life insurance policies in the U.S. are taken out by companies insuring their employees** and cashing in on the tax-free death benefits when they die. These insurance policies serve as **pseudo pension funds for their executives**. [38]
- **Corporate welfare is now $679 billion a year.** That equals **$6,000 per family a year.** [39]
- **50% of U.S. Senators and 42% of Members of Congress register as lobbyists when leaving office**. One report shows that when a member of Congress leaves office and becomes a lobbyist, he gets a **1,452% increase in compensation, on average**. [40] [41]
- In the June 2014 California election, **only 25% of registered voters actually voted** (only 18% of eligible voters). The 2014 national turnout for primaries hit a historical low. [42]
- **80%** of unbridled spending by super PACs comes from **200 very rich** campaign donors. [43]

The Future

If the past is not depressing enough, let's see what the future may hold. It is likely that public pension reform advocates who are receiving funding from out-of-state billionaires (follow the money) will eventually be at least partially successful in closing some public pension systems to new employees, undermining legal protections for pensions and a host of other "take-aways" for public employees and retirees. And the huge loss of pensions in the private sector has caused pension envy of public pensions.

The traditional 4-legged stool for retirement security that previously included <u>pensions</u>, <u>Social Security</u>, <u>savings</u> and <u>home equity</u> is badly broken. With the loss of defined benefit <u>pensions</u> in the private sector (and possibly in the public sector in the future), that leg of the stool is broken. The <u>savings</u> leg, other than 401(k)'s, is broken as reflective of the very low personal savings rate and the fact that the average family has only $7,000 in savings. The <u>home equity</u> leg of the stool is also significantly damaged with little likelihood of repair for current workers and retirees. That leaves just <u>Social Security</u> and the grossly underfunded 401(k) plans to support retirement security needs. Social Security Administration states "that the shift from defined benefit plans to defined contribution plans means that Social Security will increasingly become the sole source of guaranteed lifetime benefits on which most retirees can rely".

Picture your mom or dad, brother or sister or yourself trying to either work until death or trying to live on the average Social Security benefit of $1,294 a month with no savings, no pension, no inheritance, and no ability to go back to work. Try as you might, it is not really possible to build a budget for housing, utilities, food, health care, transportation, clothes and other necessities on $1,294 a month. It is like being sentenced to "poverty for life" for those entering what used to be called "The Golden Years".

As retirees across-the-board lose their retirement security, the economic impact at the local, state and national level could very well be the tipping point for both business and government. With significantly less income and the large pool of future retirees, there will be a contraction of spending with a corresponding loss of tax receipts. At the same time, there will be a huge increase and dependency on government social programs. The loss of defined benefit pensions that previously supported retirement security for America's elderly portrays a scenario that won't end well for individuals or the Country.

Unfortunately, retirement security in America is practically dead now, and the final nail in the coffin would be the loss of public pensions. So who can stop this race to the bottom? We, as County retirees, can and must stand together. Since the proposed "take-aways" of public pensions and retiree benefits are through initiatives that are coming through the ballot box, we can truly make a difference there. When it comes to election turnout, retirees respond at a higher level than almost any other demographic group. And we clearly know the value of defined benefit pensions. So, when a public pension measure comes up for a vote on your ballot, read it carefully to understand the long-term consequences. It will be up to each of us individually and to all of us collectively to help get the word out to our family and friends, and to VOTE! This is truly a **fight worth taking,** and our best opportunity to help our kid's and grandkid's generations **have a life worth living!**

(This article was written during the summer of 2014 for the benefit of all CRCEA Members.)

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