The Vanishing American Pension Foretells Bush Social Security Gameplan

by Anita Gallagher

Before President Franklin Roosevelt established Social Security in 1935, most Americans worked from childhood to grave. In the late 1930s, the American labor movement began to use Roosevelt's Social Security as its beachhead, in order to win contracts which included private, employer-funded pensions for unionized workers. These pensions—which, like Social Security, usually specified in advance the level of benefits which the retiree was to receive—became generalized among Americans after World War II.

Today, only 50% of America's private-sector workforce is covered by any kind of savings or pension plan. And the number of private employers who offer "defined benefit" pension plans—the "Cadillac" type which guarantees a monthly benefit from retirement to the end of the retiree's life—has fallen from 112,000 in the mid-1980s, to only 31,000 today; none has been established for at least a decade. What's more, according to the 2003 Retirement Study of Towers Perrin consultants, 25% even of these plans are "frozen"; that is, they're closed to new employees, or allow no benefit accruals.

Over the past 20 years of so-called "prosperity," private employers have exited "defined benefit" plans *en masse* to cut costs; or converted them to the less valuable "cash balance" type. Half of all employers surveyed by Towes Perrin say the expense of such plans "surged" because of their 2000-2002 investment losses. Employers have shed the investment risk of guaranteeing that future pay-out monies are there for an employee's retirement, or for his or her spouse, in favor of cash-balance plans, which tend to be paid out as one lump sum at retirement. Even more frequently, employers offer not specified benefits, but "defined contribution plans," such as 401(k) plans, where the risk of generating future earnings is placed entirely on the employee.

It is this shift of risk to the individual employee for his future retirement, which is the model for what Bush intends in privatizing Social Security.

How has it worked out for millions of holders of IRA investment accounts in the ongoing worldwide financial collapse, which only Democratic statesman Lyndon LaRouche has recognized? They have had their retirement capital "shifted" via Wall Street to synarchist financial interests. A full one-third of the employees surveyed by Towers Perrin said they now plan to work years longer than they had intended, because of their investment losses.

Bush intends to "spend his political capital" with an early 2005 legislative push for privatized Social Security accounts. Conservative study estimates show that here, Wall Street firms could reap nearly $1 trillion in fees—one quarter of the paid-in potential benefits—over the lifetime of today's young people. In keeping with such a swindle involving the primary retirement income of millions of Americans, it is only fitting that Bush lied during the election campaign that he had absolutely "no plans to privatize Social Security."

'But, My Pension Is Insured'

On Nov. 15, the Pension Benefit Guaranty Corporation (PBGC) dropped a bombshell, announcing a net loss of $12.1 billion for Fiscal Year 2004 which more than doubled its total deficit, to $23.2 billion. In 2002, the PBGC ate $6.1 billion in pension payouts for the nation's steel companies, plus other former industrial mainstays. Though PBGC Executive Director Bradley Belt stated, "The PBGC is committed to protecting pension benefits, and with $39 billion in assets we can continue to meet our obligations for a number of years," the PBGC now has more than $62 billion in liabilities. In addition, in November, it upped its estimate of "reasonably possible" exposure to the pensions of shaky companies, to $96 billion.

In fact, the PBGC's potential exposure to the pensions of the airline industry alone is $31 billion. To date, the airline and steel industries have accounted for more than 70% of the PBGC's claims by dollar amount.

In 2004, the PBGC was paying benefits to 1.1 million people, in the amount of $3 billion. The Corporation is not Federally funded. It was created by the Employee Retirement Income Security Act of 1974, to insure "defined benefit" contribution plans up to a limit, which is now $44,386 per year of retirement. It is funded by insurance premiums paid by companies offering "defined benefit" plans, and by investment returns from those premiums. Like the Federal Deposit Insurance Corporation, if it became insolvent, a taxpayer bailout would be necessary.

From 2000-02, decreasing bond and stock yields caused a decline in funding ratios for pension plans—in fact, the largest decline in the past 30 years, according to Towers Perrin. Many companies thus face high "make-up" funding requirements. Because of so-called "smoothing" methodologies utilized by many pension plans, those increased contributions to cover losses on Wall Street have not yet been funded, and will present some pension plans with dramatically increased costs.

The Bush Administration will present a pension funding proposal to Congress in early 2005. According to the testimony of PBGC Executive Director Bradley Belt before the Senate Commerce Committee on Oct. 7, the funding targets are set too low: "Employers can stop making contributions when a plan is funded at 90% of 'current liability,' a measure with no obvious relationship to the amount of money needed to pay all liabilities if the plan terminates." Belt cited U.S. Airways, which said its pliots' plan was 94% funded on a current liability basis, when in fact the plan was only 33% funded if it were terminated (by bankruptcy, for example)—a $2.5 billion shortfall. "No wonder the U.S. Airways pilots were shocked to learn just how much of their promised benefits would be lost," Belt said.

Belt also complained that there are no risk underwriting standards, causing risky companies to pay the same premiums as the rest. If the PBGC would try to raise premiums, it fears that healthy companies would opt out. There is also a lag time of several years in reporting funding levels. The PBGC, like Treasury Secretary Snow, wants to give the PBGC rights to to force payment of pensions in bankruptcy, rather than allowing corporations to use bankruptcy as a way to shed pension obligations. There is $350 billion in underfunding (on a termination basis) in the private "defined benefit" plans.

Rear-Guard Fights

In the onrushing financial collapse, the AFL-CIO and Rep. Bernie Sanders (I-Vt.) are warning of pension chiselling in converting defined benefit plans to "cash balance" plans, that have the option of a "lump sum" payment at retirement. The AFL-CIO has also attacked cash balance plans, for not calculating pension benefits based on pay in the last years of a worker's career, when he or she earns more. Benefits are usually lost if a traditional benefit plan converts to a cash-balance plan, because the scale of payments will be lower.

Cash-balance plans, though they offer the legal right to monthly payments for life, also generally offer a lump sum payout. As recently as 1995, about 85% of full-time workers who participated in a defined benefit plan were *not* offered a lump sum distribution at retirement; but by 2000, this was offered to 43% of all full-time employees in a defined benefit plan. The AFL-CIO warns that most of its members tend to take the lump sum, which they risk using up quickly. AFL-CIO Treasurer Richard Trumka said, "The spread of cash balance plans—particularly conversions [of traditional monthly payout plans—ed.] without adequate safeguards—is a major threat to workers." In 2003, Trumka said, although seven of ten *union* workers in the private sector participate in defined benefit plans, nearly one in four of these today is participating in a cash balance plan, and most of these were the result of recent conversions.

The *International Operating Engineer* said in 2000, "The offer of a lump sum is often an irresistible temptation. . . . Statistics show that lump sums taken prior to retirement . . . run out long before death, leaving retirees destitute."

More than 25% of all employees surveyed by Towers Perrin in its 2003 Retirement Study believe that Social Security will be eliminated, just as pension rigging has deprived many of much of their pensions. The solution does not lie in tweaking the formulas in an onrushing financial collapse, but in following the leadership of Lyndon LaRouche back to rebuilding the physical economy—where pension benefits and Social Security make a vital contribution by extending longevity.