EIR Economics

Private Pensions Crisis Warns, 'Don't Privatize Social Security!'

by Anita Gallagher

With George W. Bush's "top priority" to put Wall Street's hands on Social Security contributions and benefits, America's workforce is looking at the very same threat of destitution in old age, to overcome which Franklin Roosevelt instituted Social Security in 1935. Two of the vaunted "three legs" of retirement security in America—employer pension plans, and personal or household savings—are shrivelling; the third, Social Security, is under attack. In California in January, the private pension collapse and the threat to Social Security coincided. The state's Hitler-admiring Governor, Arnold Schwarzenegger, is moving to try to bust California public employees' guaranteed pensions down to risky 401(k)s, to "set the example" for George W. Bush's unpopular Social Security privatization (see box).

The insanity of converting Social Security into private investment accounts has been demonstrated in the miserable income on pension assets of private corporations in 2000-02, due to Fed Chairman Alan Greenspan's virtual zero-interest rates, and market bond and stock losses. These, together with outright corporate losses, are the major reasons for the private pension underfunding crisis today (see **Figure 1**). Ironically, leading Social Security privatizer and Senate Majority Leader Bill Frist (R-Tenn.), himself notoriously lost $400,000 of the $1.1 million campaign surplus from his 2000 campaign committee, in the markets over that same period.

The traditional employer pension system—which once guaranteed tens of millions of American workers about 50% and more of their wages in retirement (while Social Security benefits added another 35%)—"is dying," according to Congressional experts dealing with this crisis. What were once 120,000 such employer plans are now 30,000 and shrinking fast, both in number and employee size. Because bankrupt pension plans are falling into the lap of the Pension Benefit Guaranty Corporation (PBGC)—which "was never set up to absorb the collapse of the U.S. industrial sector"—it has rapidly plunged into deficit.

The PBGC is a Federal Corporation funded through insurance premiums paid by companies, and the interest it earns investing those premiums. It has swung from a $7.7 billion surplus in 2001 to a $23 billion deficit in 2004 (**Figure 2**). And the Bush White House's draconian plan to save it, announced on Jan. 10 by Labor Secretary Elaine Chao, is likely to accelerate the erosion and collapse of remaining major private employer pensions.

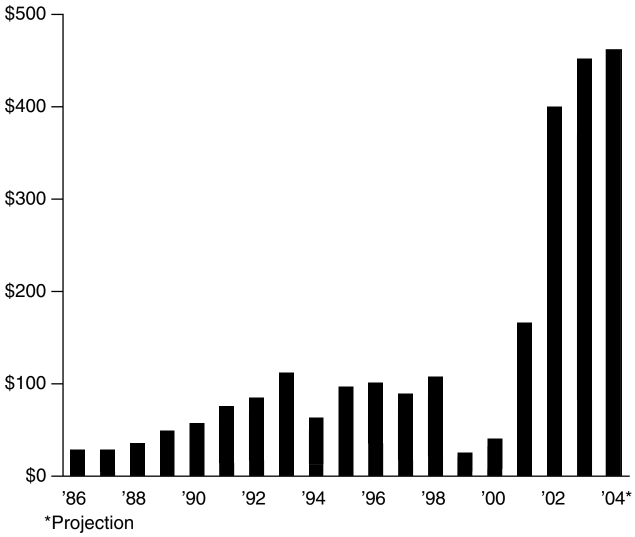
Today, about 50% of working America has only "their house, and Social Security" to look forward to, to save them from poverty-stricken old age. Of the other 50%, half have, besides Social Security, only a 401(k) plan—a defined-contribution plan on the employee's part, to which some employers add a matching contribution and some don't, and in which the worker assumes all the risk as to what he or she will have by retirement time. For workers aged 55-64, the average balance in their 401(k)s totals only $42,000, equivalent at retirement to a life annuity payment of $300/month—virtually nothing. So, by millions, these people must plan to keep working as long as they can. As for under-35 workers, 85% have only a 401(k) and Social Security to look forward to; and their 401(k)s are far smaller even than those of their worried parents.

Who then, wants to send Social Security along the Wall Street way the private pension plans went?

Guaranteed, or "defined benefit" employer pension plans covered half the American workforce a generation ago; now they include just 34 million in a labor force of 140 million. They are being abandoned by industries in trouble, and underfunded by others. Corporate losses have led to "contribution holidays," combined with low returns on pension asset investments.

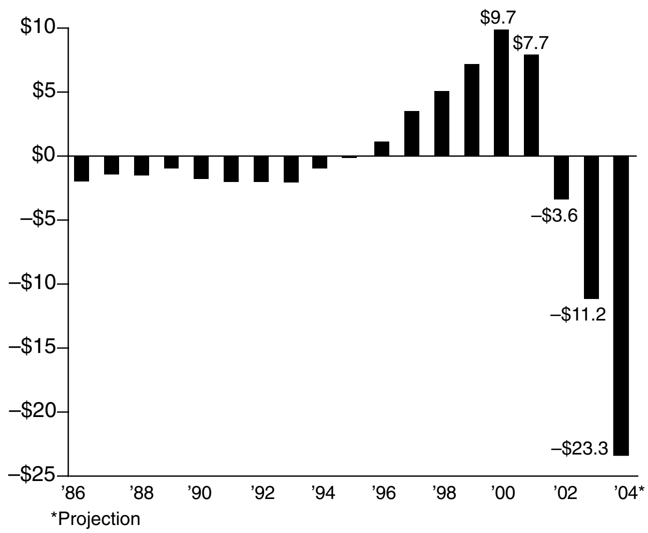
From 1999-2004, as Figure 1 shows, the underfunding of private defined-benefit pension plans exploded, from $30 billion to a whopping $450 billion "on a termination basis"—that is, the underfunding that would result if the employer

FIGURE 1
Total Underfunding of Federally Insured Employer Pension Plans
($ Billions)



Source: PBGC presentation.

FIGURE 2
Net Position of the Pension Benefit Guaranty Corporation
(Assets Minus Liabilities)
($ Billions)



Source: PBGC presentation.

"disappeared" tomorrow by liquidation or by being relieved of its pension obligations by a bankruptcy court. That figure includes gigantic recent bankruptcy liquidations of the pension plans of Bethlehem Steel, LTV, Kaiser Aluminum, National Steel, Northwestern Steel, Weirton Steel, Pillowtex, Polaroid, TWA, and Consolidated Freightways, among others.

Right now, that wave of liquidations is about to drown the airline industry. On March 31, 2003, the PBGC took over the pension plan of the 7,100 U.S. Airways pilots. At that time, U.S. Airways had $1.2 billion in assets to cover $3.7 billion in liabilities in the plan. The PBGC is liable only for $600 million of the $2.5 billion underfunding, because it is limited to a maximum annual individual payout of $45,614 to any employee. In the next few weeks, possibly by the time this issue is printed, the PBGC will announce its takeover of the remaining defined-benefit pensions of U.S. Airways workers—the flight attendants, the Machinists, and administrative workers. The PBGC will be liable to pay out $2.3 billion of this $2.5 billion pension bill. The bankruptcy judge ruled, without much PBGC dissent, that U.S. Airways would be liquidated unless it dumped its pensions.

U.S. Airways' imminent relief from its pensions is clearly a precedent for United Airlines, which is the world's second-largest. On Dec. 30, the PBGC asked the court to allow it to take over the United pilots' pension plan—$800 million in arrears on a "current" basis—immediately, rather than wait and allow the underfunding to get worse. United and its pilots' union had agreed to terminate the pension plan in May 2005; the pilots had agreed on condition that all United Airlines' other union pension plans be terminated. Concerned Capitol Hill sources have told *EIR* that if United terminates all its pensions, every major airline will do likewise, leaving the PBGC with a termination liability of up to $31 billion in the airline industry alone.

The auto industry may be next to go. A *Baltimore Sun* editorial of Nov. 22, 2004 noted that General Motors' pension plan, the largest in the United States, is underfunded to a degree which could impose a liability of $9 billion on the PBGC, on a termination basis. Standard and Poor's Jan. 25 announcement that it is studying lowering GM's bond rating, from BBB- to junk, could precipitate a pensions crisis.

The plan Chao announced on Jan. 10 to "rescue" private pensions, called for a 58% increase in the premiums companies pay PBGC, from $19 to $30 per enrolled worker; additional "risk premiums" for companies delinquent on payments or below investment-grade bond status; and, a rule forcing corporations to fully fund their pensions on a current basis within seven years. PBGC chief Brad Belt has told the employers that the Bush Administration's top priority is to avoid a taxpayer bailout of the PBGC, like the $200 billion taxpayer payout for the 1980s Savings & Loan debacle. Bush's plan seems to put no limit on the "risk premiums" to be assessed.

The result would be pressure on industries, including the auto/auto supply sector, to ditch traditional pension plans in three stages: 1) freeze accruals and new entrants (25% of all defined-benefit plans are already frozen, according to a 2003 study of Towers Perrin consultants); 2) shift to the less valuable cash-balance type of plan; and 3) tell employees to make do with voluntary 401(k) savings plans.

The Bush pressure on the most-stressed employers can't work, Congressional sources say. "On the one hand, you do want employers to increase their funding; but more employers will terminate their plans, or recalculate their finances and declare bankruptcy." One concluded, "There is no solution for the collapse of the private pension system except reindustrialization of the United States."

How to do that, was the subject of Lyndon LaRouche PAC's million-circulation campaign pamphlet issued in August 2004, *It's the Physical Economy, Stupid!* LaRouche now insists that beating Bush—badly—on his all-out attempt to steal Social Security, will discredit him and make possible the emergence of such a recovery strategy by a new political combination.

Arnie Tries To Dismantle CalPERS

by Paul Gallagher

With George W. Bush's scheme to privatize Social Security under nationwide attack, leading "privatizer" ideologues have turned their eyes to the "muscle" of California's populist/fascist Governator Arnold Schwarzenegger. Ahnuld, they hope, will force the replacement of the $177 billion California Public Employees Retirement System (CalPERS) by private 401(k) accounts, and do it hard and fast enough to put Bush's multi-trillion-dollar Social Security privatization swindle back on the political track, by example. Wall Street, and Schwarnegger's patron George Shultz, need his immediate success.

National right-wing operative Grover Norquist, of Wall Street's American [wealthy] Taxpayers' Union, said on Jan. 25, "It's nice when good policy also has star quality," referring to Schwarzenegger's Hollywood violence-cult celebrity. The head of Wall Street's Club for Growth, Stephen Moore, left the Club on Jan. 10 to become an economic advisor to Schwarzenegger, complaining on Jan. 24 about the President's scheme that "the chance of getting reform done this year is starting to look unlikely."

The strong West Coast LaRouche Youth Movement (LYM) is mobilized to defeat Schwarzenegger in the state, as it defeated him in Los Angeles and Oakland in the 2003 Recall, and as the LYM is mobilized to defeat Bush's privatization nationally. California's labor movement and Democratic legislators will try to stop Arnie's drive to dismantle CalPERS. AFSCME union official Richard Ferlauto told the Jan. 22 *New York Times,* "The debate around private accounts will be fought in California before the outcome of the Social Security debate is determined. The attempt in California is the stalking horse for whether private accounts can be sold to the American public."

Schwarzenegger is ahead of Bush in "creating the crisis" necessary to privatize. He is using the brute-force "Chile model" of drastically cutting and underfunding CalPERS, while giving California public employees an "offer they can't refuse" to opt out of it into private 401(k)s, or face lower pensions and much higher mandatory tax contributions. Margaret Thatcher's first government took the same course with Britain's old-age pension system in the early 1980s, and stampeded nearly 4 million British workers out of it into private stock and bond accounts; they fared so badly that Tony Blair's government had to order them compensated 15 years later, as if they'd been hit by a hurricane.

The last decade's stock and bond collapses have obviously cut CalPERS trust fund's returns. But it is California's own economic meltdown, brought to it in 2000 by Dick Cheney's and Ken Lay's "Enron electricity deregulation," which has hit CalPERS hard; some busted municipalities have been defaulting on their payments to the pension fund, leaving it for the first time slightly underfunded over the long term.

Schwarzenegger directly benefited from that collapse—it was used by George Shultz, Warren Buffett, and Ken Lay to make him governor. He made it far worse in his one year in office, ballooning the state's debt by 50% and opening an $8-9 billion budget deficit. In early January, he submitted a two-year state budget which cuts the state's contributions to CalPERS (including the state teachers' pension fund CalSTRS) by $765 million. That cuts nearly 10% of the funds' total employer contributions, from state and municipalities combined, in 2004.

With that blow, Republican assemblyman Keith Richman, backed by the populist Taxpayers' Association, introduced legislation to move all public employees hired after 2006 out of CalPERS' guaranteed-benefit plan, and into a risky 401(k) with a low cap on the state's matching of their contributions. Essentially, they'd be on their own in the falling markets. They'd lose CalPERS' extraordinarily low 0.2% average administration fee, and instead pay mutual fund operators 1-3% or more.

Schwarzenegger's budget goes beyond this, to force *existing* public employees to "opt out" of CalPERS as well. His budget resolution says that public employees who stay in CalPERS will have to double their own tax contributions to it, while the state's contributions—and probably the benefits—are cut. If they "opt out" into a 401(k), they'd get a one-year state "good-bye" payment as a bribe.

This is exactly how Thatcher moved in Britain in 1981-4; and before her, how fascist Gen. Augusto Pinochet and his Labor Minister José Piñera moved in Chile in 1978-81. The result, in both cases, is recognized now as a disaster for the pensioners.

Schwarzenegger says he'll do this by legislation—or by referendum. His move to pre-empt Congress for Bush, is his calling-card as fascist Presidential candidate for 2008. Defeated, it will change the U.S. political map.