

Retirement Income Security: The Oxymoron

By *Thomas J. Mackell, Jr., Ed.D.*

We are going through an incredibly frightening environment permeated by muddled objectives, conflicts of interest and what has been characterized as a “legacy of misplaced priorities.”

The world’s financial system has collapsed and global central banks are faced with new, unproven strategies to deal effectively with these turbulent uncharted waters. Credit, which was on a 20-year binge, remains constrained, the markets and the regulatory agencies have failed, and the old rules governing financial flows of capital are moribund.

The nation appears to be on a bullet train to bankruptcy.

Consumers have faded from the malls, corporate profits are under water, corporate philanthropy is down, U.S. investors face the worst year for dividend cuts since 1938, hedge funds are eroding and stymied, private equity funds are drying up, angel investors have disappeared, real estate, both residential and commercial, are in a tailspin, stock markets worldwide are hemorrhaging, professional investment managers have been sent to the bullpen, health care costs continue to skyrocket, debt collection agencies are going after the dead, CEOs are perplexed and under the gun, auto sales are the worst in the nation’s history, hundreds of thousands of workers are being laid-off, and we haven’t as yet dealt with the next tsunami of auto, commercial real estate, credit card debt and corporate loans.

Through all of this economic crossfire we have observed that many members of Congress cannot walk and chew gum at the same time as they move toward an epic debate over the right kinds of strategies to get us out of this quagmire.

One thing is certain in all of this tumult; we will never get to our future through our past.

For those who are still wired in “yesterthink” they are in for a rude awakening. There is a new world order that is taking shape and it will have a profound effect on the ability of the American workforce to enjoy their so-called “Golden Years.” Retirement income security has become an oxymoron that is a result of the

“deinstitutionalization” of pension plans.

The great risk shift of retirement responsibility from the shoulders of the institution to the shoulders of the individual in the private sector has placed the burden of obtaining a secure retirement squarely with the American worker. For most workers, the notion of designing a long-term asset allocation model is anathema to them. The average individual does not know the difference between a stock and a bond. This evolution of moving from defined benefit plans to defined contribution plans as a stand-alone benefit program is criminal and as a result of the financial crisis and the recession that point has smacked us in the face in a most vicious way.

When people do not open the envelopes containing their periodic portfolio statements for fear of the anxiety that it will precipitate, it is a sad commentary on the erosion of what we have known historically as retirement planning. The three-legged stool is no longer part of the retirement planning culture and most workers under 40 years of age are totally unfamiliar with the term.

Shame on the cast of characters who by their action or inaction are responsible for and contributed to this debacle of incredible magnitude. This will be one of the most profound tectonic shifts the likes of which we have never seen before in the history of the world. When 77 million Baby Boomers, many of whom are ill-equipped economically to retire, begin to lose the ability to work, society is in for a rude awakening. The social, political and economic consequences will tax the nation’s resources as well as challenge the intellectual talent of people in leadership roles to find solutions to the many problems that will unfold throughout society.

Will the average worker have the ability to retire with some modicum of decency in their old-age or will many elderly workers be relegated to skimping on meals and living under



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bridges or in open fields, harkening us back to the images and visions of the Great Depression when millions occupied the many hobo villages and shanty towns that popped-up alongside the highways, byways and railways of America?

With the battle having been won in the private sector, the next battle field will be over the defined benefit pension plans covering public sector workers. The policemen, firemen, teachers, sanitation workers, clerical workers and the millions of other folks who serve their communities daily made a conscious decision to accept lower pay when they applied for their jobs. They believed and expected that the

generous benefit programs, compensating for lower wages, would be there for them as they reached the end of their careers.

Over the last two to three years there has been a dramatic move on the part of elected officials at the state, county and municipal levels of government who fostered initiatives to freeze the defined benefit plans and create new tiers of benefit coverage for newly hired workers and to roll the defined benefit plans for existing seasoned workers into defined contribution plans.

It has been easy for corporations to change their benefit programs claiming that in order to be globally competitive they had to relieve themselves of the liabilities associated with defined pension plans. There was very little push-back on the part of employees and Congress was willing to create enabling legislation to accomplish that goal. The net result is that we went from some 60% of the private workforce covered by defined benefit plans in 1979 to almost 80% covered by defined contribution plans by 2006. It was a complete flip of retirement program coverage.

Now the mantra in the public sector is that we should do the same thing and dismantle the defined benefit programs for public sector workers and eliminate that burdensome long-term liability. They argue that if it was done successfully in the private sector, then we should do it in the public sector. The notion of a “social contract” no longer has any meaning and the loyalty both up and down the institution from employer to employee and vice versa is a thing of the past.

As a nation during significant crises and periods, we have always had the ability to be creative, innovative and bold when our backs were to the wall. During the Great Depression we had the wherewithal to put millions of unemployed people back to work. We facilitated the ability of returning veterans from World War II to get an education and buy a home. We forged a national industrial policy with the cooperation of labor, industry and government. We wrestled with the scourge of racism in this country for decades until the laws were changed

mandating equality.

Tearing down walls and recreating society has been part of our nation’s culture and what has made this country great and this retirement income insecurity issue cannot be allowed to bog us down for many years to come. We could start a grassroots movement to take away the pension and health care plans of our members of Congress and they will begin to feel as vulnerable as the rest us. Or, we could work in a tripartite way—industry, labor and government—to forge a new hybrid retirement system that would enable all Americans to retire with decency.

The newly created White House Task Force on the Middle Class chaired, by Vice President Biden, will be dealing with retirement income security in the months ahead and hosting town hall meetings that are being scheduled to take place throughout the country. Every citizen, young or elderly in the public and private sectors, should plan on attending these sessions to stand up

and be counted on this most critical issue.

If you fail to participate and don’t believe that this is a monumental issue then should you ask yourself this question: How many gated communities can we build in this country surrounded by moats of money, protected by a twisted political system, before those on the outside want in?

The late Senator Hubert H. Humphrey appeared in the well of the Senate shortly before he passed away and in a speech to his fellow senators made the point that “you can judge a society by how it treats those at various stages in their lifetime; those in the sunshine—the children, those in the shadows—the misfortunate and those in their twilight—the elderly.” Today’s political leaders should think about those remarks every time they deal with a thorny issue that will have serious consequences for the well-being of working Americans—the folks who start the engine everyday and make this country run. Failure to do so should be categorized as unpatriotic.

Retirement income security is a critical issue. The decisions we make today or fail to make will dictate what kind of a society we will have in the future. Let’s make a secure retirement a reality.

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