The Greatest Retirement Crisis In American History

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We are on the precipice of the greatest retirement crisis in the history of the world. In the decades to come, we will witness millions of elderly Americans, the Baby Boomers and others, slipping into poverty. Too frail to work, too poor to retire will become the "new normal" for many elderly Americans.

That dire prediction, which I wrote two years ago, is already coming true. Our national demographics, coupled with indisputable glaringly insufficient retirement savings and human physiology, suggest that a catastrophic outcome for at least a significant percentage of our elderly population is inevitable. With the average 401(k) balance for 65 year olds estimated at $25,000 by independent experts – $100,000 if you believe the retirement planning industry - the decades many elders will spend in forced or elected "retirement" will be grim. *(Update: In response to readers' questions about the lower number, Teresa Ghilarducci, a professor of economics at the New School for Social Research, estimates that 75% of Americans nearing retirement in 2010 had less than $30,000 in their retirement accounts.)*

Corporate America and the financial wizards behind the past three decades of so-called retirement innovations, most notably titans of the pension benefits consulting and mutual fund 401(k) industries, are down-playing just how bad things are already and how much worse they are going to get.

Americans today are aware that corporate pensions have been virtually eliminated and that the few remaining private, as well as the nation's public pensions, are in jeopardy. Even if you are among the lucky few that have a pension, you cannot rest assured that it will be there for all the years you'll need it. Whether you know it or not, someone is busy trying to figure how to screw you out of your pension.

Americans also know the great 401k experiment of the past 30 years has been a disaster. It is now apparent that 401ks will not provide the retirement security promised to workers. As a former mutual fund legal counsel, when I recall some of the outrageous sales materials the industry came up with to peddle funds to workers, particularly in the 1980s, it's almost laughable—if the results weren't so tragic.

There was the "Dial Your Own Return" cardboard wheel of fortune that showed investors which mutual funds they should select for any given level of return. Looking for 12%? Load up on our

government plus or option income funds! It was that easy to get the level of income needed in retirement, investors were told.

The signs of the coming retirement crisis are all around you. Who's bagging your groceries: a young high school kid or an older "retiree" who had to go back to work to supplement his income or qualify for health insurance?

The impending crisis will come in what I call "waves," as opposed to a tsunami hitting all at once. With each successive wave, more elderly will be drowned. The older you are, the harder it is to recover from a set-back.

Wave 1: Retirees Come Back To Work

Workers who retired post-2000 realize they cannot possibly live on their meager retirement savings, virtually no interest and limited health benefits and conclude they must go back to work full-time. For example, one of my clients, a sheriff's office, has already seen retirees coming back to work largely for health insurance coverage. While these retirees do have pensions, the cost of health insurance, when not subsidized by an employer, is far greater than they had anticipated. For those who are physically and mentally capable of going back to work and are welcomed by their former employers or other employers, this is a plausible survival strategy.

Wave 2: Workers Delay Full Retirement

Many current workers realize they have not saved enough to retire and postpone retirement for a certain number of years. They still believe, however, that someday they will be able to retire and live off their savings. This strategy makes sense for workers who can hang onto their jobs at the same (or better) pay and are healthy enough to keep working. On the other hand, older workers who are forced by employers to agree to demotions, pay cuts or part-time status to stay on, may feel demoralized.

Wave 3: Full Retirement Is Unachievable

Many current workers and retirees at some point realize that they can never fully retire, i.e., stop working altogether, and commit to working part-time for as many of their golden years as possible.

The problem is, of course, that each year more elderly people become too frail to work and fewer employers are interested in hiring them, even on a part-time basis. Remember those ads that said, "It's hell to be forty and out of work?" Try looking for work at 70 or 80.

Wave 4: Drowning

At some point, lack of savings, lack of employment possibilities and failing health will catch up with the overwhelming majority of the nation's elders. Let me emphasize that we're talking about the overwhelming majority, not a small percentage who arguably made bad decisions throughout their working lives.

Given the certainty that a retirement crisis is headed toward our shores, you'd think that our elected officials would be hard at work preparing a response. Of course, that's not happening. To the contrary, conservatives are trying to pare back so-called entitlements that will mushroom in the near future and liberals have failed to acknowledge the crisis or propose any solutions.

Eventually the pain will be so widespread that the crisis will be impossible to ignore. For many, the challenge is to hang in there until help arrives.

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KRC report online
NIRS report online

New Keystone Research Pension Primer Finds Switching Pa.'s Public Pensions Primarily to 401(k)-Style Plans Would Be Harmful to Public Employees, Unconstitutional & Hurt Taxpayers in the Long Run

National study shows 401(k)-type plan switch increased costs in other states

(HARRISBURG, Pa.) -- A new pension primer released today by the Keystone Research Center finds that Senate Bill 1, under consideration in the General Assembly, would cut the pension benefits of current teachers, firefighters, nurses and other early career public servants in Pennsylvania by 24-28 percent and reduce benefits for their future colleagues by as much as 70 percent.

Unfortunately, Pennsylvania taxpayers won't see meaningful cost savings from these benefit cuts and employee sacrifices but rather will see higher costs long term.

"This misguided, 410-page proposal rushed through the Senate will cost taxpayers money in the long run by shifting future workers to less efficient retirement plans and requiring wage increases to offset the benefit cuts," said Dr. Stephen Herzenberg, author of the report and executive director of KRC. "It also could potentially reduce the investment returns of the existing pension plans, which would mean taxpayers have to contribute more."

Additionally, the benefit cuts for current workers present constitutional problems that make them likely to be thrown out in court, the report predicted, meaning that not only will there be no cost savings, but there could be long drawn-out legal challenges that would leave Pennsylvania with even more pension debt in a few years.

Excluding savings from cuts to current employees, the actuary for PSERS estimates savings of only $614 million in today's (present-value) dollars and $3.2 billion on a cash-flow basis. Savings for SERS are estimated at only $2 billion (on a cash-flow basis), *including* the savings from likely-unconstitutional cuts (which are not broken out separately).

In Pennsylvania, Senate Bill 1 will likely cost taxpayers more in the long run because it primarily switches new employees to inefficient 401(k)-style individual accounts which typically have low returns and high fees, and can require twice as much in contributions to achieve the same retirement benefit. The potential erosion of

investment returns in the existing pensions – highlighted by the PSERS actuary but not modelled because of the rushed evaluation of SB 1 – could also increase taxpayer costs. Any future increases in wages required to maintain competitive compensation with radically reduced benefits will also increase taxpayer costs.

The new report adds to a body of research that shows switching public employees to 401(k)-style plans has failed in other states. In a KRC press call with reporters today, Diane Oakley, executive director of the National Institute on Retirement Security (NIRS) shared recent NIRS analysis of three states – West Virginia, Michigan and Alaska – that switched new employees to DC plans (online at http://goo.gl/Ne4yuY). The report found that switching from defined benefit plans to defined contribution plans did not address the real funding problems in those states, and they ended up with significantly more pension debt.

? In Alaska, a 2005 DC switch was sold as a way to contain an unfunded liability but pension debt doubled to $12.4 billion by 2014. Legislation has been introduced to move back to a DB pension plan.
? In Michigan, the DB pension plan was overfunded when it closed in 1997, but funded status dropped to about 60% in 2012 with $6.2 billion in unfunded liabilities.
? In West Virginia, the state closed the teacher retirement system in 1991 to new employees, but the system's funded status continued to deteriorate and retirement insecurity increased for teachers with the new DC accounts. The state switched back to its DB pension plan by 2008.

Instead of advancing Senate Bill 1, today's KRC pension primer recommends building on the pension reforms in Act 120 of 2010. "With additional reforms that have bipartisan support, state and school district pension contributions could level off as soon as next year. But Senate Bill 1 would only take Pennsylvania backwards on pensions," Herzenberg said.

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