



The Bell Policy Center

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Retirement system on shaky ground

By Rich Jones

The Boulder Daily Camera • June 26, 2005

United Airlines defaulted on more than \$9 billion in pension benefits for its employees.

The head of the federal Pension Benefits Guarantee Corp. told Congress on June 7 that private pension plans are underfunded at a record \$357 billion, and raised the specter of further bailouts of financially weak plans.

Actuaries for Colorado's Public Employees' Retirement Association reported June 17 that PERA owes state and local workers \$12.8 billion more than it has in assets.

Social Security trustees project that the system will be unable to pay full benefits beginning in 2041.

This news reveals underlying flaws in our retirement system that may delay or eliminate retirement for many workers. We need to fix these flaws as 76 million baby boomers age closer to their golden years.

The U.S. retirement system is like a stool propped up by three legs: company pension benefits, personal savings and Social Security payments. For many workers, particularly low-wage workers, the first two legs of the stool are missing and the third, Social Security, needs repair.

Most Colorado workers cannot rely on the company pension leg of the retirement stool: six out of 10 workers do not have a pension. That's slightly above the national average of 56 percent lacking pension plans, according to a U.S. Census Bureau survey of workers.

The pension situation is worse for workers at the low end of the pay scale. A U.S. Department of Labor survey of employers nationwide reports that 64 percent of workers who make less than \$15 an hour are not covered by a pension plan.

Meanwhile, widespread under-funding of traditional pension plans raises doubts about whether those pensions will still be intact when workers retire. Fewer workers can count on the personal savings leg of the retirement stool.

Only about one in five U.S. families, many in higher income brackets, have personal retirement accounts such as IRAs or Keogh plans. Of the families with income below \$29,000 a year, 84 percent have no retirement savings at all. A recent study by Fidelity Investments, the big mutual fund company, finds that the average American family has saved \$18,750 for retirement and plans to rely on company pensions and Social Security payments to cover most of their retirement costs.

Even Social Security, the sturdiest of the legs on the retirement stool, poses risks for workers. The 2005 annual report issued by the Social Security Trustees in March estimated the fund must begin selling its stash of U.S. Treasury securities in 2027 to pay benefits to retirees. Although full benefits can be paid through 2041, many experts suggest that cuts in benefits or increases in Social Security taxes are needed to ensure the system's long-term solvency.



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Today, more than 170,000 Colorado seniors count on Social Security for half or more of their income, and 82,000 get 90 percent or more of their income from Social Security. Hispanic retirees and non-married women of all races rely on Social Security for three quarters or more of their retirement income.

We can take several steps to make retirement more secure for all workers:

- Make every effort to ensure that the Social Security system remains solvent through at least 2080.
- Tighten the rules so private and public sector pensions are adequately funded and so the Pension Benefits Guarantee Corp. is financially able to protect pensions of workers in bankrupt companies.
- Allow companies to automatically enroll workers in personal retirement plans unless workers choose to opt out. Research shows this significantly increases the number of people, particularly minorities and low-income workers, who build personal savings in company retirement plans.
- Make it easier for small businesses to provide pension plans for their workers. At present, of the businesses with fewer than 100 employees, only 46 percent provide pension plans.
- Create universal 401(k) accounts to provide workers with a private account on top of their traditional Social Security benefits. The federal government could match the contributions of low-income and middle class workers to increase the amount of private retirement savings.

Unless we correct the flaws in our retirement system, many workers, particularly those who earn low wages, face a future with little security.

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