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Retirement Insecurity

Beth Shulman**April 24, 2006**

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General Motors' announcement that that it would no longer provide traditional pensions to its employees hired after 2001 was stunning because of its size. Yet GM is hardly alone in trying to pare down or eliminate conventional pensions. Every day, from healthy companies like Verizon to bankrupt firms like Delphi, there seems to be a new announcement. United Airlines, Bethlehem Steel, Motorola, Lockheed Martin, IBM, Hewlett Packard, along with many other pillars of our economy, have frozen their pension plans, insisting they cannot afford to keep their promises.

The impact of simply wiping out traditional pensions resonates far beyond corporate boardrooms and company shareholders. It's a unilateral move to cut out a main clause of our social contract, the model that a majority of Americans and their families have relied on for nearly three quarters of a century.

Are we really ready as a society to declare the end of retirement as we know it? In order to retire, must employees now bear all the costs and take all the risks? And at the very least, shouldn't we have a serious, national conversation before we simply accept a major shift that will have such a significant impact on our economy and the quality of life in our country for generations to come?

Traditionally, pensions were part of a three-legged stool of retirement: Social Security, personal savings and private pensions from employers. Each leg is essential to ensuring that Americans can retire without fear of being desperate or a huge drain on family, friends, church or community.

Yet Americans are having a difficult time saving. With stagnant wages and the escalating costs of housing, gasoline and college, many are just living paycheck to paycheck. That leaves pensions.

For most of the late 20th century, employers offered defined-benefit plans, pensions in which retirees received a fixed sum each month based on their length of service and income. By contrast, today's newer defined-contribution plans, known as 401(k)s, give wage earners a tax break for putting part of their own salary into an account which they can draw on after they retire.

It's not surprising that employers prefer defined-contribution plans. They offer the company the option of matching a worker's contributions. But it's just an option and a number of employers opt out. The number of American workers covered by 401(k) plans rose from 14.4 million in 1980 to nearly 60 million in 2000. Meanwhile, the number of private sector employees covered by defined-benefit plans plummeted to only one in five.

These 401(k) plans will not be sufficient for most people to retire. The median amount of money in a 401(k) plan for individuals ages 55 to 64 is only \$23,000. Most experts believe that it will take at least \$200,000 to \$300,000 in addition to Social Security for the average American to have a secure retirement.

Many homeowners expect a one time windfall from the sale of their much-appreciated homes to take up the slack. But will it? Refinancing a home mortgage for spending money means committing to make mortgage payments that will last well into retirement. What's more, relying on

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the sale of a house to capture all the equity depends on a stable housing market, not to mention being able to find somewhere else affordable to live afterwards. Economists have grown hoarse warning us that today's hot housing market is a bubble just waiting to burst.

While *USA Today* [reports](#) that lawmakers who retire at 60 receive an immediate pension of \$25,000 and lifetime benefits that could total more than \$800,000, most Americans may end up at retirement age with only one leg of the stool—Social Security. But Social Security is not now nor was it ever intended to be enough to live on alone. The average Social Security benefit is only \$12,000. Instead of having the ability to retire with some dignity, future generations of senior citizens are more likely to have to arrange to sleep on their adult children's pull-out sofas—if they're lucky enough to have children who can afford to help support them.

How did retirement become so precarious? In a few years, all but the most affluent among us may have to keep working well beyond the age of 65. That's not what we signed up for. And it's not the way things have to be.

Before we simply roll over and accept the end of traditional pensions, we could put some other choices on the table. Social Security needs to be strengthened. At the same time, Congress could offer firms incentives to keep their traditional pension plans intact. We could require employers to pay into a new hybrid plan that would blend the best of the 401(k)'s portability and simplicity with the dependability and longevity of traditional defined-benefit pension plans.

As a first step, we could reverse the current 401(k) trend that leaves out workers who can't afford to put money into the plan. We could require employers to contribute to 401(k)s for every employee. The employees could then match that contribution if they could afford to do so. Everyone who earns below a certain level could be offered tax credits for their deposits.

Let's not go back to an era when we saw America's elderly eating out of garbage cans. There are many ways to ensure that Americans have a secure retirement. But let's not pretend that everything will be alright if we do nothing as we watch corporations renege on their promises of traditional pension plans with substitutes that will not provide the same kind of coverage. We deserve a truthful conversation about the options that will provide a decent retirement for all Americans.