



# Free Market Project

Auditing the media's coverage of the free market system



## Pension Promises: the Death of the American Dream?

As companies face the reality of their financial obligations, a new day of personal responsibility is dawning for the 'little old schmo' – and the media are worried.

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"Pensions are becoming a thing of the past, and the future of Social Security is uncertain. So it's important to take charge and think about how much you need for your golden years."

That statement didn't come from President George W. Bush or a conservative talking head – it was CBS's Rene Syler on the January 12 "Early Show." But where was such a conclusion last spring when the Social Security debate was in full swing? As the Free Market Project showed in [an analysis of media coverage](#) of that debate, the media emphasized the risk of managing one's own retirement savings, rather than the perils faced by the government system. On the same network Feb. 3, 2005, Anthony Mason warned that "personal accounts add risk to a system designed to reduce it."



Now that retirement is back in the news, some broadcast journalists are up to their old tricks. They've told viewers to "watch out," that they might have a "bulls-eye" on them because companies are targeting their pensions. CNN's Miles O'Brien even said everyone might end up as "Wal-Mart greeters" in their old age, and a Fox News reporter worried whether the "little old schmo" with a retirement account would be able to manage it.

Unlike the government, business leaders have the leeway to make tough choices about their expenditures and the financial health of their companies. That's important as the government-backed Pension Benefit Guaranty Corp., which insures private companies' programs, is straining to cope with giants like airlines and steel companies defaulting on their payments to workers. The Wall Street Journal reported January 18 on legislation Congress is considering that would lift some regulations and allow businesses to restructure their pension plans even more, in the interest of preventing the underfunding problems many face.

Alcoa Inc. (NYSE: [AA](#)), a leading aluminum company, joined IBM (NYSE: [IBM](#)) as the latest in announcing a move toward defined-contribution retirement plans, like 401(k)s, from defined-benefit plans, which are "guaranteed" to pay a certain sum to workers for life. According to the Bureau of Labor Statistics (BLS), just 21 percent of private industry workers were in defined-benefit plans as of 2004. Forty-two percent were in defined-contribution plans. Contribution-based plans usually offer portable savings that workers can take with them – especially helpful considering a BLS study

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of baby boomers, which showed they changed jobs an average of 10 times between the ages of 18 and 38.

### **Personal Responsibility 1, Welfare State 0**

Bankrupt companies like Delphi obviously can't pay for their pensions, but even financially healthy companies are deciding that to stay in business they must shift more responsibility to workers.

Does that mean, as Miles O'Brien said on the January 17 "American Morning," that "we're all going to be greeters at Wal-Mart some day"? Later on the show Andy Serwer warned: "If you work for a big company and you have a very generous pension plan, watch out, because there is writing on the wall." Soledad O'Brien rejoined: "You've got a bulls-eye on you."

But another CNN regular, Jack Cafferty, acknowledged the shift as a fact of life, even a positive. On January 14, Cafferty asked a guest on "In the Money": "What's wrong, though, with putting more of the onus for this retirement thing on the individual?"

ABC's Betsy Stark saw plenty wrong with it, declaring workers "vulnerable" on the January 8 "World News Tonight." "Traditional defined benefit pension plans are a vanishing piece of the American dream," Stark said, adding that "Workers at all levels - from the rank and file to management - are vulnerable, especially if they work for old-line industrial companies with union workers." She concluded with, "Certainly not the retirement they planned for."

Planning is the key, but it must be realistic. David John, a research fellow at The Heritage Foundation who studies retirement policy, said that "the problem with most of the media reports and the view people have of defined benefit plans is that there's no risk." People can see the risk when they look at their own 401(k) or the stock market, he said, but for some reason they think having their company take care of it takes the risk away. That's simply not true. The risk is present, whether it's a company managing funds or the government spending Social Security dollars.

Despite that truth and companies' need to stay in business to provide jobs for their workers, CNN's Lou Dobbs added IBM's announcement to his "War on the Middle Class" series. On the January 6 "Lou Dobbs Tonight," he proclaimed "middle class Americans facing a new attack on their standards of living. Even their pensions under assault." He reminded viewers that "IBM is one of the largest most profitable corporations in the world, recording almost \$100 billion in revenue last year. But this company still says it needs to cut costs by ripping up a key financial contract with its middle class work force. This is just the latest firm to go back on its pension promises."

Christine Romans also lamented the loss of "solid, dependable pensions" for IBM's "loyal" workers, calling them "the pensions that helped build the American middle class."

But John said "this isn't an attack on the middle class." "This is really pulling back the curtain" to reveal the reality behind the pension plans - they're underfunded and companies can't maintain the level of benefits they once thought possible. "The pension system today assumes that a company is going to be in business forever and that it's going to be contributing X dollars to its plan every year," John said. But workers can't base their futures on that assumption.

### **Public Benefits, Public Bailout**

Private-sector workers may be taking more responsibility for their futures, but government employees are enjoying more benefits thanks to taxpayers. CNN's Andy Serwer cited a new study on the January 17 "American Morning" saying that over the past four years, government employees' pension benefits have grown 37 percent. USA Today reported on January 16 that that figure applied to state and local workers,

according to the U.S. Census Bureau.

Taxpayers could also be on the hook for some private pension plans that go belly-up. The Pension Benefit Guaranty Corp. (PBGC), which insures private companies' pension programs, is "well over \$100 billion under-funded," John said. That means if enough companies cashed in on the PBGC's obligations, "there would have to be a taxpayer bailout." And that's only private pensions – in addition to the government workers taxpayers already support, 90 percent of whom have a defined-benefit pension. To make matters worse, the PBGC will need more money about the same time Social Security does, John said.

What to do? John said the country faces two responsibilities. First, because one in five private-sector workers has a defined-benefit pension, "the companies and the unions cannot add more pension promises unless they have the money to pay for them." Secondly, he said all workers must have the same opportunity to enroll in an individual retirement savings account.

### **Minding Your Own Money**

Of course, the media treat the American worker with skepticism, especially when it comes to managing money. Even Fox News, which generally gives more balanced treatment of individual responsibility, took the workers-out-in-the-cold line. On "The Big Story" January 6, John Gibson said: "It sounds like these big companies are basically trying to put workers out on their own. You know, forget pension plans from us. You got your 401(k), you're on your own."

Noting that companies have obviously had trouble funding their pension plans, Gibson added the kicker: "Well, if the big, smart guys at the big corporations can't figure out how to make these investments pay off the guaranteed number down the road, how is the little old schmo with his 401 supposed to figure it out?" But correspondent Dagen McDowell reported that about 75 percent of workers with access to 401(k)s participate in them. Though she emphasized that that meant "a whole quarter of employees" aren't participating, she could have taken the approach that only a quarter of workers need to join the crowd.

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