

RETIREMENT SECURITY

Every worker yearns for a dignified retirement after decades of labor. But for too many, this hope is a fading dream. Low wages and high costs make it difficult to save, corporate pensions are being eliminated and Social Security is under attack. Backed by Wall Street financial houses, President Bush started his second term by trying to privatize Social Security. Privatization is the centerpiece of the conservative “ownership society,” which essentially shifts risk from society as a whole to single individuals.

Americans took a good look at the Social Security privatization—and rejected it. A broad coalition formed to dig for the facts, crystallize the message and carry it to the American people. The attack on Social Security was turned back, but not forever. We have a long way to go before all Americans can count on a secure retirement after years of hard work.

THE CHALLENGE

Retirement security should be like a sturdy stool supported by three strong legs—Social Security, personal savings and employee retirement benefits. But all of these legs are now shaky.

Social Security is designed as the bedrock—a minimum payment, adjusted for inflation, which lasts as long as you live. Half of all workers now have no pension at all other than Social Security. The program is currently in surplus but it is projected—under very cautious estimates—to fall short around the year 2052. The situation is not as dire as conservatives sometimes pretend. The Congressional Budget Office calculates that applying the payroll tax to all income—it now only applies to the first \$102,000 earned—would entirely eliminate any shortfall.

The other legs of the retirement stool are in far worse shape. Few companies provide pensions anymore. Among those that do, many have failed to set aside sufficient funds to pay what they owe. Nowadays, instead of pensions, companies that offer retirement plans use 401(k) plans, in which the company matches a portion of funds that workers take out of their paychecks. These plans are good as far as they go, but they provide a smaller benefit and shift investment risk to the worker.

At the same time, personal savings are way down. Stagnant wages, rising gas and home heating prices, higher health insurance premiums, increased tuition costs and rising debt have left more families living paycheck to paycheck. In 2005 and 2006, Americans saved less than

HOT QUOTE

“There is no imminent crisis facing Social Security and it is not going bankrupt, no matter how many times Bush tries to paint that grim picture.”

**CONGRESSWOMAN
JAN SCHAKOWSKY**

they had ever saved since the Great Depression.¹ Needless to say, few Americans are saving enough to provide for a secure retirement.

THE CONSERVATIVE FAILURE

On this already shaky foundation, conservatives want to increase individual risk and decrease shared security. Under a privatized Social Security, there would be no guaranteed income, no protection against inflation and no guaranteed payment for as long as you live. Instead of everyone contributing to a program that secures benefits for all, each would be on their own. Conservatives argue that Social Security provides a low return, and individuals should take responsibility over their own savings. Some will win; some will lose. But two things are certain if Social Security is privatized: everyone will pay more management fees to Wall Street firms, and more senior citizens will live in poverty. The projected Social Security shortfall will even increase. The most secure leg of retirement will be sawed off.

For conservatives, the very success of Social Security makes it a target. They hope to create more “investors” and more conservatives. They want people focused on the health of Wall Street not the strength of our economy and our government.

At the same time, conservatives have done nothing to counter the corporate rollback of pensions. They’ve refused to crack down on executives who provide themselves with luxurious pension plans even while plundering those of their workers.

Converting guaranteed pension benefits into 401(k) matches allows corporations to slip workers a backdoor pay cut. In the end, the ownership society turns retirement policy on its head—corporations get the security and individuals are left with the risk.

THE PROGRESSIVE SOLUTION

Progressives need to take a broad and bold approach to helping Americans establish a solid three-legged stool of retirement security.

Make the economy work. Most importantly, progressives must champion economic policies that benefit the many and not simply the few. With full employment and rising wages, Americans can save more, workers can demand better retirement benefits from employers and Social Security's projected shortfall can be reduced. Universal health care would reduce what families have to spend on health care costs and protect seniors against soaring drug and medical costs. Improved energy policies can help Americans save better by sparing them from rapidly rising gas and home heating prices.

Strengthen Social Security. Progressives must work to strengthen Social Security and protect it from future assaults. Raising the payroll cap would itself resolve the projected shortfall four decades away. Privatization or other structural changes pose a far greater risk.

Hold companies accountable for pensions. Progressives must hold companies to their existing pension obligations. At the very least, progressives should require the following.

- Every company must provide a retirement program for its workers, supplemented with an employer contribution. One simple step would be automatic enrollment, with a match, and employees must opt out rather than opt in.
- The shop floor must be treated the same as the top floor. If the CEO has a defined-benefit pension, workers should get the same; if the CEO has retirement stock options, workers should also. If worker pensions are cut back for a company in distress, CEO pensions should be as well.
- Congress must require companies to fund the pension commitments they make. Congress must shore up the Pension Benefit Guaranty Corporation's balance sheet to help workers whose companies go belly-up. At the same time, worker pension commitments should be at the front of the line, not the back of the line, in corporate bankruptcy proceedings.

Universal 401(k) investment accounts. Congress should create a tax-free investment account—a universal 401(k) that everyone can use. Current IRA and 401(k) plans provide tax benefits for saving, a useful way to help people plan for their own futures. But they mostly help the affluent, who are more likely to have access to these plans and who have more money to set aside. A better universal plan would cover everyone and provide a partial match for savings—especially for lower-income workers. It can even provide a cash benefit at birth that will expand tax-free over time. Conservatives will like creating a new generation of investors; progressives will like giving poor and working people a chance to build up assets from birth.

HOT QUOTE

"...the American retirement income security system is breaking down. If current trends continue, poverty rates among the elderly will increase and middle-class retirees will find that their retirement income will not pay for the lifestyle they achieved while working."

TERESA GHILARDUCCI

("Schwartz Chair of Policy Analysis,
New School for Social Research,"
November 20, 2007)

MAKING THE CASE

You know the challenge we face. You know how conservatism failed. You know how a progressive vision can move us forward. How do you crystallize the argument, deliver the key facts and take down conservative spin? Below are the tools you need to make the case in your community.

Core Arguments

Social Security has been a proven success for more than 70 years, and progressives continue to protect it from conservative attacks.

Proof Points

- Social Security benefits lift nearly 13 million seniors age 65 and older above the poverty line, as well as 1.3 million children.²
- Social Security has an accumulated surplus of over \$2 trillion. By 2016, that surplus will be over \$4.2 trillion—more than four times the amount needed to pay benefits in that year.³
- Social Security is currently in surplus. It is not projected to fall short—even under very cautious estimates—until the year 2052.⁴
- When conservatives tried once again in 2005 to gut Social Security with privatization, progressives rallied the public and saved it.

Conservatives weakened retirement security by allowing corporations to underfund and drop pensions, by failing to create incentives to save and by mismanaging the overall economy.

- Participation in defined-benefit plans has dropped dramatically in the last 20 years from 62% to 20% of workers.⁵
- Defined-benefit plans of the S&P 500 were underfunded by \$218 billion in 2005.⁶
- The federal government's Pension Benefit Guaranty Corporation estimated that its own underfunding exceeded \$450 billion.⁷
- The Enron scandal alone robbed 20,000 retirees and former employees of \$1 billion in retirement savings.⁸
- The mortgage crisis has hammered savings in home equity. At least \$2 trillion in home equity has disappeared, and it may reach \$4 trillion.⁹
- Among households nearing retirement, half have \$15,000 or less in a 401(k) or IRA type plan.¹⁰
- Nearly a third—and 39% of African American and Hispanic households—do not have enough retirement savings, including Social Security, to replace even half of their income in retirement.¹¹
- Real median household income dropped nearly \$1,000 from 2000 to 2006.¹²

Strengthen all three legs of the retirement security stool: protect Social Security, promote household savings and shore up private pensions.

- Income above \$102,000 is not subject to the payroll tax. Lifting that cap is a fair and minor adjustment that would prevent any shortfall in 2052.¹³
- Over 75 million workers each year have no employer-sponsored pension,¹⁴ and would benefit from a universally available tax-free 401(k) savings account.
- Hold companies accountable. Ensure all companies provide a retirement program, and make sure pensions aren't plundered.
- Fully fund the PBGC as a safety net for workers whose companies go bankrupt.

Spotlight Stories

Anneliese Crosby, 46, who codes medical records at a private hospital in Manchester, N.H., is trying to get a government job for financial reasons—better pay, benefits and job security... [Currently] her retirement depends mostly on contributions to her tax-deferred retirement account. “It’s scary. I feel like I need a second job or to be on the lookout for a new job,” she says. “I should put more in my retirement account, but I can’t afford it.”

From *USA Today*, February 21, 2007.¹⁵

Melissa Marcello, a 39-year-old waitress at a steakhouse in Orlando, Fla., expects to make as much as \$40,000 this year, a little more than the national median for full-time workers. Even so, she says retirement is “not a thought in my head.”

She automatically moves \$100 into a mutual fund every month, making her thriftier than most Americans, but she still expects Social Security to be a major part of her retirement income. “I think it will be,” Ms. Marcello said. “I hope it will be. It will have to be there.”

From *The New York Times*, April 11, 2006.¹⁶

Conservative Spin

Social Security will go broke as baby boomers retire. We need a new system that allows workers to invest their own money and earn higher returns in the stock market.

Progressive Response

- Social Security is in surplus now and faces no problems for four decades. Any long-term projected shortfall can be eliminated simply by requiring everyone to pay payroll taxes on more of their income. The winners under privatization will be Wall Street brokers, who will be showered with management fees. For seniors, privatization will simply increase individual risk and leave more people in poverty.

The economy has changed since the days when people worked for one company all their lives and retired with a company pension. IRAs give employees control over their own retirement income. People concerned about market risk can choose low-risk investments.

- The economy hasn't changed so much that corporations should cheat their employees by walking away from their obligations. Corporations need to honor the commitments they made and fund their pension plans. You never hear about corporate executives losing their pensions. Workers deserve the same protection that executives give themselves.

The ownership society is about giving people the ability to make their own decisions about how to save for their retirement. Liberals don't trust people to make their own decisions.

- The ownership society says you are on your own. In fact, when it comes to Social Security, we're in it together. Workers support their parents' generation and are in turn supported by their children's generation. The new economy places ever-increasing risk on workers—less job security and fewer guaranteed pensions. Social security provides a secure floor—we cannot put that at risk as well.

Public Pulse

Americans believe Social Security is extremely important.

- 80% of Americans believe that Social Security is very important, including 45% who think Social Security is *extremely* important. (*Gallup/USA Today, 2007*)
- 80% say it's "the government's responsibility to provide a decent standard of living for the elderly." (*CBS News/New York Times, June 2005*)

80%

80%

Americans oppose privatization, support minor adjustments to strengthen Social Security

- 63% support raising the payroll cap on taxing Social Security benefits (*CBS News/New York Times, June 2005*)
- 56% say it's a "bad idea" to "change the Social Security system to allow workers to invest their Social Security contributions in the stock market" (*NBC News/Wall Street Journal Poll, May 2005*)

63%

56%

Retirement insecurity is a widely shared concern among Americans.

- 47% of Americans are worried they'll outlive their money when they retire; 45% are worried they'll retire at a later age than they previously thought. (*Gallup/USA Today, March 2008*)

47%

MORE RESOURCES

Alliance for Retired Americans, a nationwide organization that focuses on issues affecting seniors. <http://www.retiredamericans.org>

National Committee to Preserve Social Security and Medicare, a membership organization dedicated to protecting, preserving, promoting and ensuring the financial security, health and well being of current and future generations of maturing Americans. <http://www.ncpssm.org/>

Campaign for America's Future: Protecting Social Security, a center of progressive strategy, organizing and issue campaigns. <http://socialsecurity.ourfuture.org/socialsecurity>

Economic Policy Institute, a nonprofit, nonpartisan think tank that seeks to broaden the public debate about strategies to achieve a prosperous and fair economy. <http://www.epinet.org/>

Endnotes

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