Pensions benefits slashed for US workers

Companies channel retirement funds into the stock market

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A study published earlier this month by the Economic Policy Institute depicts a dismal economic situation for the vast majority of American retirees. “Retirement Insecurity: The Income Shortfalls Awaiting the Soon-to-Retire,” written by Edward N. Wolff, a professor of economics at New York University, compares the 1983 retirement wealth of US households to that of 1998, the latest year for which figures are available. The study concludes that only those households with incomes above $1 million saw consistent increases in their retirement wealth, after inflation.

“All other wealth classes, even those with between $500,000 and $1 million in net worth, saw their retirement wealth fall from 1983 to 1998,” the study reports. The main reason? Traditional pension plans—those sustained by employer contributions—have been drastically cut, while 401(k)s, individual retirement accounts (IRAs), Keoghs and other defined contribution pension plans have mushroomed, increasing in prevalence at US companies from 11.9 percent in 1983 to 59.7 percent in 1998. These “defined contribution pension plans” consist either of funds from employers and employees or funds donated exclusively by the future retiree. In dollar terms, the change in contribution pension plan investment is staggering. As noted in the report: “The average wealth held by households between the ages of 47 and 64 in defined contribution plans grew by 838.1% to $69,200 between 1983 and 1998.”

The end result has been the systematic fleecing of the wages of the majority of working Americans, whose regular contributions to 401(k)s and IRAs are channeled into the stock market, reaping increased cash for the super-rich and leaving the majority of households grossly underprepared financially as they head into retirement. In the period since 1998, which is not included in the study, hundreds of millions of dollars have been lost in retirement investments in the stock market, particularly in high-tech stocks.

The stock market boom of the 1990s—far from advancing retirement security—actually resulted in a deterioration of economic conditions for the overwhelming majority of retirees. The study explains that this “15 year run-up in stock prices at a time when public policy was encouraging expanded individual investment for retirement did not enhance retirement income adequacy for the typical household.” The report notes that proposals to subject Social Security—a program almost universally available to all segments of the population—to the “risks of privatization” by allowing the government or individuals to invest Social Security funds in the stock market would pose almost certain dangers to future retirement benefits.

Remarkably, while 99 percent of households were covered by Social Security benefits in 1998 (up from 86 percent in 1983), “Average Social Security wealth fell amid rising coverage because of decreasing lifetime earnings, which translate directly into smaller Social Security benefits accruals,” according to the report. An examination of the trends in retirement wealth exposes a society sharply polarized between the very slim section of the super-rich and the majority of the population. While for the *average* household headed by a person aged 47 to 64 retirement wealth rose by 4 percent from 1983 to 1998, for the *typical*, *median* household it fell by 11 percent. For those households with $1 million or more in net worth, retirement income increased by a whopping 43.8 percent.

The study explains: “Retirement wealth declined for the household at the middle of the wealth distribution while it rose overall because the pattern of retirement wealth growth was very unequal.” In other words, the wealth of those households at the very top of the economic spectrum increased so dramatically that when these are included in the overall average it skews the results, an indication of a dramatic growth in social inequality in America.

The following major indices demonstrate the insecurity faced by millions of Americans as they retire from a lifetime of work:

* By 1998, 18.5 percent of households headed by a person facing retirement could expect incomes below the official poverty line—$7,818 for a single elderly person and $9,862 for a two-family household. This pitifully low government definition of poverty undoubtedly conceals far higher numbers of retirees who are unable to makes ends meet—or must chose between paying for food, housing, utilities, medical prescriptions and other necessities.

* The share of households unable to replace at least half of their pre-retirement income has risen dramatically, from 29.9 percent in 1983 to 42.5 percent in 1998. More than 50 percent of African-American and Hispanic families are unable to replace half of their pre-retirement income.

* Between 1983 and 1998, among households headed by someone with less than 12 years of schooling, mean retirement income fell by 11.9 percent for those ages 47 to 64.

* Single retirees also face increased hardship in retirement. While in 1998, 6.6 percent of married couples would fail to meet the poverty threshold on the basis of expected income from personal wealth holdings, pensions, and Social Security benefits, this figure rises to 33.5 percent for single females and 46 percent for single males.

The EPI's "Retirement Insecurity" study defines retirement wealth as a combination of three components: pension holdings, projected Social Security benefits and non-retirement wealth. (Non-retirement wealth is defined as "marketable wealth less defined contribution pension wealth," i.e., assets which could be utilized for consumption spending.)

An examination of the change in retirement wealth between 1983 and 1998 again shows the vast disparities between the rich and poor in America, and the skyrocketing of wealth for the richest segments of society. The following chart shows the change in retirement wealth for a 65-year-old retiree in 1998.

Again, only those in the top wealth brackets—those with incomes over $500,000 a year—saw any increase in their retirement wealth. Those in the poorest income bracket, who earned less than $25,000 a year, actually saw their retirement wealth decline—by almost 40 percent.

It is worth considering what the figures listed in the chart above would mean for the retiree and his or her family trying to make ends meet. For someone at the $50,000-$90,000 income level retiring at the age of 65, the household would have only $8,040 a year to live on if he or she lived to 80 years of age. By contrast, the average millionaire could count on more than $36,000 a year during this same 15-year period.

It should be taken into account as well that retirement wealth only includes those assets that can readily be converted into cash. It excludes such assets as stock options, ownership of a profit-making enterprise, off-shore holdings and other income-generating property which would vastly expand the wealth of those in the $1,000,000-plus income bracket if taken into account.

The "Retirement Insecurity" study is but one more indication of the vast expansion of social inequality that continues to wrack US society in the new millennium. The report shows that the average American working person—once he or she has spent decades in the workforce—is rewarded with a retirement bordering on the poverty level. Furthermore, there is no guarantee that the thousands of dollars the employee has handed over to his or her employer to invest in the stock market will be worth anything when it comes time to retire.