

Fewer Employers Offer Pensions

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The number of Americans over the age of 65 is expected to double between now and 2030. This next generation of retirees will be the healthiest, best educated, and most affluent in American history. But many of them will not have a retirement benefit their parents' generation fought hard to get.

It is something known as a defined-benefit plan, or "pension." Retired workers who have a pension continue to be paid a certain percentage of their highest annual salary - usually anywhere from one to three percent - multiplied by the number of years they worked for the company.

Pensions first became popular during World War II, when a federally-mandated wage-freeze meant unions had to negotiate for retirement benefits, instead of pay increases. Pensions reached the height of their popularity in the late 1970s, when more than 60 percent of Americans had one.

But at a recent labor conference in New York City, Anna Burger of the Service Employees International Union noted that more and more industries are opting not to offer pension plans to their new employees. "First it was steel. Then it was airlines. Now it's auto parts," she told the crowd. "They find themselves in a crisis, either because of globalization or mismanagement, so what do they do? They file Chapter Eleven (i.e. declare bankruptcy), and take a hike and dump their pensions."

Today, fewer than 13 percent of American workers rely on pensions as their primary retirement plan. Major corporations like Verizon, Lockheed Martin, and I.B.M. have all announced they will no longer offer pensions to new employees. And earlier this year, United Airlines made news when the company announced it was defaulting on its existing pension obligations. The federal government is now assuming partial responsibility for those payments.

So why are so many companies insisting they cannot afford defined-benefit plans? Sometimes - as Anna Burger insists - it is because of global competition or mismanagement. But according to Sylvester Schieber, who is director of research for the consulting firm Watson Wyatt, there is also a demographic problem. He says there are just too many people retiring - and they are living a long time.

"Across most of the developed economies of the world, the average age of the population is rising," Schieber says. "Fertility rates have been falling off. Life expectancies have been going up, so we've got fewer younger people and more older people. Relative to where we were a decade or two ago, we've got more retirees today than workers."

And that ratio is only going to get more and more skewed.

Now, the decline of the pension does not necessarily mean American workers are being left with no retirement options. Many companies that have dropped their defined-benefit plans have turned

instead to defined-contribution plans, or what are sometimes called "401k"s, because of the line in the federal tax code that applies to them.

Under a 401k, an employer creates an individual savings account for an employee. The worker contributes his or her own money to it - and sometimes, if he is lucky, his employer even matches a small percentage of those funds. The money is not tied to the number of years a person has worked for a company, and if an employee decides to leave and work somewhere else, he can take his money with him.

Olivia Mitchell, a professor at the University of Pennsylvania's **Wharton** School of Business, says there are some advantages to this.

"The evidence shows that the typical American worker will have ten jobs over his career, with typically ten different employers," Mitchell says. "That is a very mobile workforce. And so the advantages to having a mobile or a portable pension are quite appealing."

But there are disadvantages, too. Defined-benefit plans are backed by a government guarantee - which offered some relief to retired workers last year, when United Airlines declared bankruptcy. 401k plans, however, have no such guarantee. Also, unlike pensions, 401ks are voluntary - workers are asked whether they want to participate. And research shows that many employees - especially young ones - choose not to, because retirement is so far in the future that it does not seem real to them -- until it's too late.

Olivia Mitchell says the U.S. Congress is considering legislation that would require workers to be automatically enrolled in a 401k unless they take the initiative to opt out. "The research shows that the automatic enrollment tends to attract 80, 90, 95 percent participation rates," she says, "And people stay in - because of inertia, because they know it's good for them, and because they really don't have to think about saving. It's been made easy for them."

Professor Mitchell says she believes in the future, more and more employers are going to be abandoning defined-benefit plans in favor of defined-contribution plans. She says the one exception to this rule, though, could be the public-service sector. She says local, state, and federal government employees do not tend to change jobs quite as frequently as other American workers do - which is why public transportation workers in New York City recently went on strike in a bid to preserve their defined-benefit plans.