Demise of pension plans spells net loss for workers

by Michael_Kinsman

Nobody will be surprised to learn that American companies are less likely to provide fixed-rate pensions to their workers today than in the past.

Everyone knows this has been a trend for the past three decades and that more companies are supporting worker retirements by contributing to 401(k) savings plans.

Seems like a bit of a wash on the surface.

But not without risks.

The Employee Benefit Research Institute recently said that only four in five companies that have eliminated defined-benefit pension plans over the past two years have increased their contributions or started offering 401(k) plans to their workers.

Net loss.

And, the institute says there is no way to calculate whether the contributions those employers are now making to 401(k) plans are as substantial as the ones to the traditional benefit plan. Researchers say that is unlikely.

Net loss again.

Now, let's consider what happens to the 401(k) funds when you put them in the hands of employees. Some employees have sizable holdings in company stock through these plans; others have made risky investments that have resulted in financial setbacks; still others have siphoned 401(k) money to pay off debt, college education or support their current lifestyle. This means higher risk, less security.

Once again, net loss.

These factors add up to bad news for employees and American taxpayers. Some workers will find themselves working longer to retire and some will downsize their retirement plans to account for lower incomes. Other workers - who either didn't have 401(k) plans or squandered what they did have - will look for public assistance to care for their health and welfare as they age.

Again, it's no surprise that defined benefit plans are falling by the wayside. They are cumbersome, new accounting rules make them more difficult to administer, and companies feel they can shift the burden of retirement saving and planning to the workers themselves.

That's why the percent of private companies offering traditional pension plans has declined from 62 percent in 1979 to 10 percent in 2005, according to EBRI.

The nonprofit research institute said that two-thirds of companies that offer traditional pension plans have either closed them to new hires or frozen them for all participants over the past two years, or plan to do so over the next two years.

The accelerated trend is worth noting.

It will cause significant ripples in our lives. It means that more people have to take responsibility for managing their retirement savings and investments and they likely will have less security than that afforded traditional pension plans.

That means more risk.

That has been partly responsible for an increase in recent years in the percent of people over 65 who still are in the work force.

In 2006, 15.4 percent of people over 65 were still working, compared to 1975 when 13.7 percent were. And, that figure will grow in the years ahead, particularly with the large number of aging baby boomers.

There is nothing wrong with companies shifting from traditional pensions to the 401(k) model. But it requires everyone to acknowledge that the risks and responsibilities have shifted, too.

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