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Senior retirement futures bleak?

By Jim Nowlan

"We are on the precipice of the greatest retirement crisis in the history of the world," declared Ted Siedle recently in conservative Forbes magazine. That caught my eye.

What I found from further research is that many retirees will have to rely very heavily, some almost exclusively, on Social Security, as many do now.

The problems for the future are obvious. First, most employers have jettisoned defined benefit plans for less expensive defined contribution plans.

(A defined benefit plan promises a pre-established income in retirement, whereas the other type promises a fixed contribution to a plan controlled by the employee, such as a 401(k).)

Second, low interest rates mean low income from investments. Third, home values plummeted a few years ago and haven't recovered fully. Fourth, we aren't saving enough. Fifth, we are living longer; couples 62 years old today will have half a chance that one will live to age 90.

Siedle quotes a professor who says that 75 percent of Americans nearing retirement have less than $30,000 in retirement accounts.

As a result, according to the Employee Benefit Research Institute (EBRI), three-fifths of retirees receive 65 percent or more of their income from Social Security.

I have a friend who lives solely on $1,000 a month from Social Security, and his tightly budgeted life style is rather grim.

Actually, throughout American history to this point, the situation for those 65 and over has improved markedly. Augustana College economist Joanna Short points out in an academic paper that labor force participation among men age 65 and over declined from 77 percent in 1850 to just 17.5 percent in 2000.

This meant most could somehow retire, even if it simply meant a few years of dependence on their children at the end of lives that were much shorter than they have become.

Beginning about the 1970s, more people began putting money into defined contribution, life insurance and IRA savings plans. Assets in various plans nationally shot up from $236 billion in 1970 to $11.5 trillion in 2003, the last year for which I could find data.

But this was countered by the flight of corporations from defined benefit plans to less rich defined contribution plans. For example, a Washington Post article recently chronicled the transition to a defined contribution plan by a solid Indiana company that had provided defined benefits to employees since 1947.

The company hated to give up the defined benefit plan but felt it could not afford to continue it any longer in an environment of low investment returns.

In the company's new 401(k) plan, a $40,000-a-year employee who stays with the company 25 years (unlikely today)—and faithfully sets aside 7 percent of his pay for retirement— will wind up with only about one-third less money in his account than he would have under the old company plan.

According to EBRI, in 2012 private industry devoted only about 3.6 percent of its costs for employees to retirement, versus about 8.5 percent by state and local governments, which tend to have the traditional defined benefit plans. In 2009, fewer than 5 percent of private sector workers were in defined benefit plans.

And state and local governments have also been reducing pension benefits, as noted in efforts by Illinois lawmakers to reduce a $100 billion shortfall in plan assets.

There is also the problem of leakage from defined contribution accounts by people who must take money out of their accounts early for such needs as college tuition for the kids.

Sure, "Save more!" as we are admonished endlessly.

That is fine for the two-income professionals, who will do just fine in retirement. But how does a couple with children, each making not much more than minimum wage, save much? And that's where more and more Americans find themselves.

I think the only responsible policy for many, maybe most Americans, is to stabilize and increase benefits from Social Security, certainly not reduce them, as some have suggested.

And the public seems to be okay with this, even if it means heftier individual—and employer—withholding.

A recent survey by the National Academy of Social Insurance found that 82 percent of respondents agreed that, "It is critical that we preserve Social Security even if it means increasing the Social Security taxes."

Let, stop kidding ourselves. Many, maybe most Americans cannot save enough to provide for a comfortable retirement.