RESOLUTION 5

Achieving Retirement Security for Working Families

Submitted by the Executive Council
Referred to the Legislation and Policy Committee

WHILE ADDRESSING OUR NATION'S health care crisis is front and center on our policy agenda, a smoldering crisis in retirement security is ready to ignite and demand our immediate attention.

The current economic downturn, combined with employers' abandonment of secure, defined-benefit pensions in favor of cheaper, but less secure, defined-contribution plans as workers' primary retirement plans in the private sector, has exposed severe deficiencies in the current retirement system. Indeed, only 13 percent of today's workers say they are very confident about having enough money for a comfortable retirement—the lowest level in 16 years. Retirees' confidence in their financial future also has reached a new low, with only 20 percent saying they are very confident. That lack of confidence is justified. The grim reality is that the majority of America's workers will face retirement with far less security than previous generations.

For decades, workers have been able to achieve retirement security because their retirement income was the product of mutual responsibility: government-provided Social Security, employer-provided pensions and personal savings. The most significant change in this equation is the decline in private employer-provided pensions.

Defined-benefit plans remain the soundest and most cost-effective vehicles for building and safeguarding retirement income security, with professional asset managers, lower investment fees and better returns.

Yet, only 20 percent of today's private-sector workers are covered by defined-benefit pension plans, and, alarmingly, that number is decreasing. The funding rules for single-employer pension plans in the Pension Protection Act of 2006, coupled with the imposition of new accounting standards, contribute to an environment in which even healthy companies are choosing to freeze their pension plans or close them to new hires. This trend has only been exacerbated by the current economic downturn.

Almost four times as many state and local government workers—79 percent—have defined-benefit plan coverage, but their plans are also under attack through legislation and ballot initiatives to replace them with defined-contribution plans, to increase employee contributions and to reduce benefits and COLAs for participants. For public employees who do not participate in Social Security, maintaining defined-benefit plan coverage is even more critical, as it is their only secure retirement benefit. The AFL-CIO will continue to defend and protect the pensions of public employees from all unwarranted challenges.

In recent years, employers have been swapping their pension plans for 401(k) plans. While somewhat cheaper for employers, 401(k) accounts cannot adequately compensate for loss of a guaranteed lifetime benefit. The facts are clear: Even before the recent stock market collapse, half of all American families had no retirement savings whatsoever. Among families closest to retirement, nearly two in five had no retirement savings. More affluent people who were able to save have watched their account balances plummet and their plans for a secure retirement fade. As one of the nation's foremost retirement experts recently observed, "As a major source of retirement income, [the 401(k) system] has shown itself unreliable—a point the financial crisis has driven home."

Today, for those without a defined-benefit pension plan, Social Security is the only reliable and guaranteed benefit. With the decline in private employer-sponsored pensions, one-third of Social Security beneficiaries receive more than 90 percent of their income from Social Security; two out of three receive more than half of their income from Social Security; and it is the only source of income for nearly one in five seniors. A typical retiree, however, needs almost twice the average monthly Social Security benefit to preserve a reasonable standard of living. That is, the average Social Security benefit is just slightly above a minimum wage income. Indeed, the income replacement rate of today's Social Security benefits is lower than that of most other OECD countries, and growing Medicare cost-sharing obligations mean seniors will need higher benefits just to maintain the replacement rates of the past 25 years. Thus, achieving Social Security adequacy, not just solvency, must be the goal of policymakers.

For our nation's rail workers and retirees, preserving and strengthening the programs established by the Railroad Retirement Act and the Railroad Unemployment Insurance Act are absolutely critical. The railroad retirement system is funded exclusively through taxes paid by both employers and employees and acts as both a defined-benefit pension plan and the equivalent of Social Security. Today, this system is on solid financial ground and provides benefits to 600,000 retirees, spouses and survivor and disability annuitants. Attempts to weaken or dismantle this system that has worked for more than 60 years must be rejected, and any changes must only be instituted with agreement between labor and management.

The AFL-CIO remains fully committed to strengthening and improving existing private defined-benefit pension and 401(k) plans through legislative and regulatory action. We strongly support congressional efforts to provide temporary funding flexibility for single and multi-employer pension plan sponsors so that plans can weather the current economic downturn and avoid needlessly jeopardizing workers' benefits. We strongly support legislation requiring the uniform and clear disclosure of 401(k) fees and expenses to retirement plan participants. We cannot ignore the reality, however, that the current system is inaccessible, inadequate or insecure for the millions of America's workers without pensions.

Therefore, we call upon Congress and the new administration to go beyond patchwork reform in addressing the crisis in retirement income security. While we welcome the administration's attention to the issue, tinkering with 401(k) plans by adding new plan features such as automatic enrollment, or requiring companies without retirement plans to let workers contribute to an IRA by paycheck deduction, will not bring about necessary change. Merely facilitating individual savings in tax-favored accounts does nothing to address the fundamental deficiencies of defined-contribution plans. Workers will still bear all the financial risk and responsibility. They also bear the risk of longevity—individuals with longer-than-average life spans may outlive their savings. A retirement system based on individual accounts simply cannot meet workers' need for a lifetime retirement income that is adequate and secure.

Therefore, while we will continue, through both collective bargaining and legislation, to strengthen and preserve existing pension plans, we also call upon policymakers to join us and other allied organizations in working to develop a bold new initiative for those without pension coverage based upon the principle of mutual responsibility—with government, employers and individuals all contributing. Together with Social Security, this will provide a universal, secure and adequate income for retirees in the 21st century.

We call upon the administration to consider new retirement plan designs that draw on the best features of both defined-benefit and defined-contribution plans in order to achieve more comprehensive coverage and adequate benefits for all of America's workers. After a lifetime of hard work, workers deserve to retire with dignity—with the economic security they have earned.