<u>***NEWS from the***</u> ***FISCAL POLICY INSTITUTE***

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Report Finds New Yorkers Lost $10.78 Billion in 401(k) Assets

Albany, NY: Workers and retirees in New York lost $10.78 billion in 401(k) assets as the result of stock market declines in 2001 according to a study, being released today by the Institute for America's Future. The study points to even greater losses for 2002, as financial markets have been rocked by revelations of corporate corruption.

"As Congress debates 401(k) reforms, this report helps explain the growing anger and anxiety about retirement security for many people in New York, whose retirement savings have taken a big hit," said Frank Mauro, Executive Director of the Fiscal Policy Institute. "Most politicians claim to want to protect pensions, but many, particularly House members, have voted for legislation that would undermine retirement security for millions."

The study reports that only 47 percent of employees in New York have any kind of employer-provided retirement plan, leaving many workers with little or no sources of retirement income besides Social Security. For those workers who have retirement plans, the report demonstrates that security in retirement has become increasingly vulnerable to serious disruption, as retirement plans require workers to bear all the risk. Over recent decades, employers have shifted away from traditional "defined benefit" pension plans, which guaranteed a specified level of retirement benefits and which are insured by the Federal government, to 401(k)- style "defined contribution" plans.

The report finds that growing dependence on 401(k) and IRA-type plans, now the predominant form of retirement savings for most workers, has shifted the risk onto individuals to manage their own investments in the financial markets. For example, workers at Enron, WorldCom and other companies were pressured to buy company stock, and were often unequipped – or literally not allowed – to diversify their holdings. In this new context, the stock market decline has devastated the retirement savings of millions of workers, forcing many retirees to continue working long after they had planned to retire.

The report is sharply critical of legislation passed by the U.S. House of Representatives that would gut "equal protection" regulations for middle and lower income workers in company-based 401(k) plans. The House bill frees corporations to skew pension benefits to top executives. The House bill rolls back current law protections, allowing employers to exclude more low and moderate wage earners from retirement plans and skew benefits to higher-paid workers.

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"This provision is an outrage," said Harvard Law professor Daniel Halperin, one of the nation's leading pension experts, to the *New York Times*. The language in the bill, he said, is an attempt to "basically gut" current rules intended to ensure that companies offer roughly proportional retirement plans to highly paid and more moderately compensated workers. The Senate has the opportunity to reject this provision, which has been described as a high priority for the corporate lobby, as it takes up its own version of a pension bill this month.

The House-passed legislation also makes it easier for companies to legally declare as "solvent" pension plans that may actually be financially shaky, by allowing them to assume a better return on the plan's investments than market conditions may justify. The bill also loosens reporting requirements for companies with pension plans that have a small number of participants. Critics fear that less disclosure will make it harder to detect problems in these plans, which could jeopardize benefits for millions of workers. "Small plans already have substantial relief when it comes to pension plan reporting," said J. Mark Iwry, who oversaw employee-benefits policy and regulation at the Treasury Department from 1995 to 2001. "Relaxing the reporting requirements still further would make it harder for regulators to monitor compliance with the rules."

"The deepening retirement security crisis and the recent wave of corporate scandals on Wall Street only underscore the need to protect Social Security from private investment (privatization) schemes as it is the only guaranteed benefit that every American can count on", noted Mauro. Yet, in a near party-line vote in 2001, the House of Representatives voted to support a White House Commission on Social Security. At its inception, the Commission was mandated by President Bush to propose specific plans that would allow private investment of Social Security money, a controversial idea opposed by most Democrats. According to a report published in July by the AFL-CIO, the White House plans for partial privatization would cause Social Security's guaranteed benefits to fall by as much as $413 per month for future recipients in New York.

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