INSTITUTE FOR AMERICA'S FUTURE

1025 CONNECTICUT AVE. NW
SUITE 205
WASHINGTON, DC 20036
TEL (202) 955-5665
FAX (202) 955-5606
www.ourfuture.org

New York Workers Lost Over $10.78 Billion in Retirement Assets Due to Stock Market Decline, Corporate Crime, and Shift of US Pensions to "Defined Contribution" Investments.

From December 2000 to December 2001, workers and retirees in New York lost over $10.78 billion in retirement savings due to the rapid drop in the stock market. Substantial additional losses in retirement savings during 2002 have already occurred, although they have not yet been reported by the government. As a result, many retirees living on investment income have been forced to cut back their modest living standards or go back into the workforce. And working families who have carefully planned for retirement and the education of their children are now wondering how they will make ends meet as they get closer to leaving the workforce for what used to be called the "golden years."

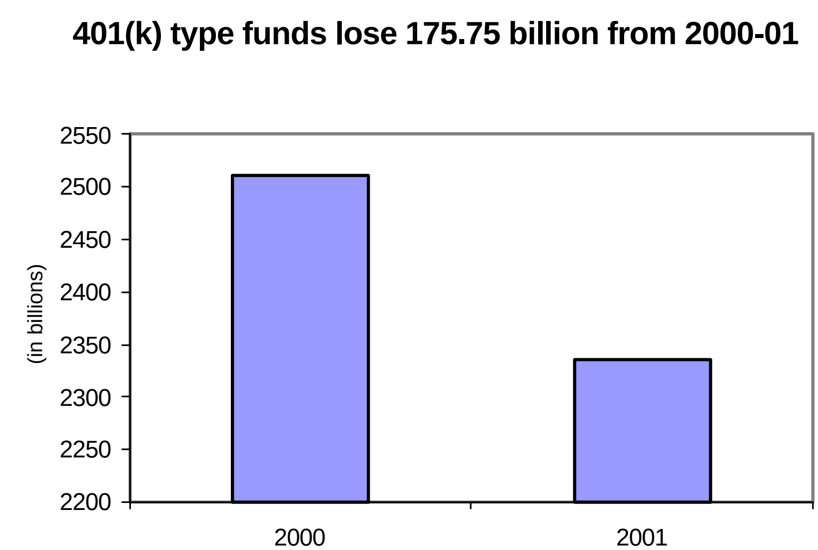
The immediate cause of this dramatic blow to retirement security was an overvalued stock market, hit first by the deflating of the dot-com/technology bubble, and sent crashing to new lows with the news of the Enron, WorldCom and other corporate crime scandals. As market experts and investigative journalists have documented the layers of corporate malfeasance and lawbreaking, the public's loss of faith in the management and in the basic financial numbers of corporate America has further weakened the stock market and threatens to undermine consumer confidence in the real economy.

To determine the losses to 401(k)-type plans held by workers and retirees in New York, the Institute for America's Future made the following calculations: 1) The Federal Reserve's Flow of Funds Report[1] shows that nationwide, from 2000 to 2001, 401(k)-type plans lost a total of $175.75 billion. 2) The Current Population Survey tells us that the percentage of New Yorkers with a pension is 47 percent.[2] We multiplied this percentage by the number of employees in the state (8,533,000, according to Census 2000[3]) to find the number of [New Yorkers] with pensions: 3,969,442. 3) Using Current Population Survey data, the total number of U.S. pension holders was found (64,725,800). New York's 3,969,442 workers with pensions make up 6.13 percent of the total. 4) To estimate New York's 401(k) losses, the Institute multiplied .061 by $175.75 billion to find total losses of $10.78 billion to the state's 401(k)-type plans.[4]

We note that the figure of $10.78 billion while very large, actually *understates* the losses suffered by New Yorkers because it only covers the year 2001. During that period the Dow-Jones Industrial average dropped from over 11,000 in January of 2001 to 10,178 by the end of 2001. But the stock market continued to fall in the first half of 2002, hitting a low of under 8,000 in early August. While the Federal Reserve Board has not published national 401(k) losses for 2002, it is clear that the cumulative number through

August 2002 will be larger. Lower income investors, who tend to stay in the market even when it is plunging, have been especially hard hit.

But the sinking stock market is only *part* of this story. Changes in the pension system have effectively shifted financial risk from employers to employees. At the same time, corporate executives have often deliberately abused employee pension plans. These abuses are the direct result of a decades-long corporate campaign to change pension rules and to deregulate financial oversight of corporations. As a result, companies have dramatically cut their commitments to worker retirements, even while top level corporate executive compensation and retirement benefits soared.



Source: Table L.119.c Private Pension Funds: Defined Contribution Plans (1), Flow of Funds Account, Federal Reserve, June 2002.

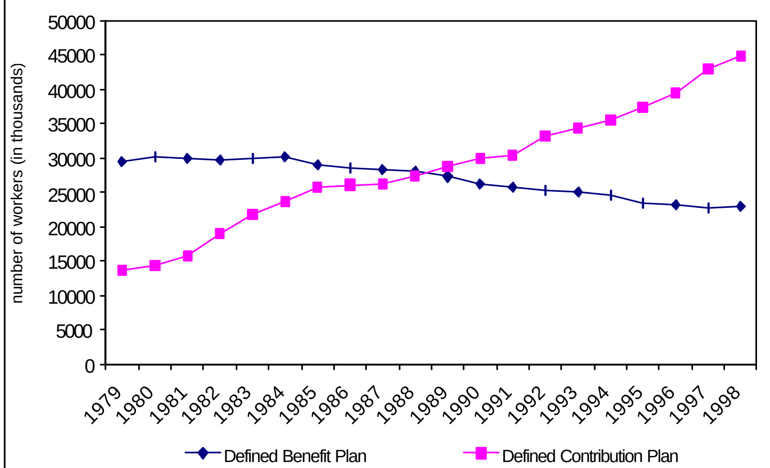
As public outrage has grown in response to the devastating losses suffered by employees at Enron, WorldCom and other major companies, Congress has begun debating pension reform. Congress and the President have been talking about ways to make the U.S. securities market more "transparent" and trustworthy, while reviving investment and economic growth. But except for the Sarbanes accounting reform bill, decisive action has not been taken. The Senate will take up pension reform in September. But pension reform must address the real structural problems that have allowed corporate manipulation of employee assets and thus undermined retirement security for all Americans.

Increased Risk for New York's Workers

For half a century, many workers in New York and the U.S. were covered by *defined benefit* pension plans, which provide a guaranteed level of retirement income to retirees. Laws governing these plans require that they cannot have more than 10 percent of the fund invested in employer stock. Such funds are also insured, thereby protecting employee retirement security.

But over recent decades, many employers have discontinued these real pensions in which the company must allocate enough funds and take responsibility for managing investments so that retirees can count on a specific *defined benefit* retirement income (often negotiated in union contracts). Instead, they have moved aggressively to shift to a retirement system that is little more than a tax-advantaged employee savings program, to which the employer may contribute. These 401(k)s, often referred to as *defined contribution* plans, put the risk and responsibility for achieving a decent retirement income on the shoulders of employees (backed up only by Social Security's guaranteed defined benefit).

Pension Coverage from 1979-1998: The Shift from Defined Benefit to Defined Contribution Plans



Source: Private Pension Plan Bulletin, Abstract of 1998 Form 5500 Annual Reports, U.S. Department of Labor, Pension and Welfare Benefits Administration, Number 11, Winter 2001-02.

These *defined contribution* plans -- 401(k)s, IRAs, and other similar plans -- leave many employees in the lurch. Because they are individual rather than collective, planning is difficult and risks are much greater. Workers end up scrambling to make investment decisions with little information or experience with investment strategies. Today the average worker must find his or her retirement investment path in an environment dominated by Wall Street investment advisors whose advice is distorted by conflicts of interest. Stock analysts publicly issue “buy” ratings on companies they privately describe as “junk.” And employers deliberately encourage investment in company stock, while painting radically inaccurate pictures of their corporations’ financial positions.

Sadly, retirement losses like those experienced by Enron and WorldCom workers are not unusual. A recent Metlife study has shown that the switch to defined contribution plans, combined with the tumbling stock market, have sapped retirement savings for millions of workers, forcing them to continue working long after they’d planned to retire.

Post-Retirement Poverty

The common metaphor used to describe the American retirement system is a three-legged stool, supported by pensions, Social Security and private savings. Of the three, Social Security is the most reliable. It is a significant retirement income source for all but the very wealthy. Despite this, conservatives are currently trying to partially "privatize" Social Security. President Bush and members of Congress have proposed turning a portion of Social Security into the equivalent of a riskier 401(K)-style *defined contribution* plan, whose returns would be as subject to the ups and downs stock market as private savings and most corporate retirement plans are now. While Social Security is the backbone of America’s retirement system, it was never intended to be the *only* source of retirement income for elderly Americans. However, 50 percent of America's retired citizens rely on Social Security to keep them out of poverty in their "golden years."

One out of every eight persons over 65 in the state of New York is living in poverty. In the nation as a whole, the numbers are one in ten.[5] In 2000, the poverty threshold for a household of two persons aged 65 and over was just $10,419 per year.[6] Imagine trying to make ends meet, especially with the rising cost of prescription drugs, on $10,000 a year. There is indeed a growing retirement security crisis in New York and across America.

Unaccountable Employers and Unprotected Employee Pensions

In 1974, when the basic law that protects worker pensions was passed -- the Employee Retirement and Income Security Act or ERISA[7] -- 401(k) plans did not even exist. Since these and other defined contribution plans, with their greater degree of risk, are now the primary form of pension coverage, outdated laws should be amended if we are to protect retirement security for the majority of America's workers.

Because employees now contribute two out of every three dollars to their 401(k)s, they have the most to lose when the stock market plummets. A pension reform provision that prohibits employees from investing too heavily in employer stock does not limit their freedom, as those opposed to reform would assert. Instead, it would encourage account diversification, an important safeguard against the kind of catastrophic losses experienced by workers at Enron and WorldCom.

In addition to provisions that would prohibit over-concentration of employer stock in pension funds, employees must have some recourse against employers and fiduciaries who deliberately provide misleading investment advice. Current law says that fiduciaries who embezzle funds or provide inaccurate information to employees must return lost money to the plan. But such a law is meaningless if coverage is inadequate to cover losses. At Enron, employee pensions shrunk by $1.3 billion but the fiduciary insurance policy was worth just $55 million.

Ken Lay put his employees' life savings on the line when he told them that he'd "never felt better about the prospects for the company," as he and other executives unloaded over $1 billion in Enron stock. At the same time the company's faithful workers continued buying, many were locked into holding the stock until they turned 50 years of age, and collectively they ultimately lost $1.3 billion, with no way to recover their losses. Liability should be expanded beyond fiduciaries to executives who deliberately deceive employees.

Finally, if corporations assert that workers are capable of taking on the investment responsibility that 401(k)s require, why don't they give workers representation on the boards that manage their own retirement funds? In fact, some companies do just that, but those that don't may need a nudge. Worker representation increases transparency on the financial health of the pension fund, allows employees to have a voice in investment decisions, and tends to increase employee contributions to the plans.

Your Tax Dollars at Work

401(k) and other pension plans are tax-sheltered savings vehicles. Employers contribute on behalf of employees, who do not pay income taxes on the contributions, and the investment returns are not taxed until the employee retires. The federal tax subsidy can exceed $7,000 a year for higher paid employees. The Office of Management and Budget estimates that in providing tax subsidies to encourage pension coverage, the federal government will forgo more than $746 billion in tax revenues from FY 2003 to 2007. But these tax subsidies are not resulting in widespread pension coverage for America's workers. In New York, only 47 percent of employees even have any kind of employer-provided pension.[8] Nationwide, only 46 percent are covered.

Not only have tax subsidies failed to increase coverage, they have effectively sanctioned inequitable coverage. Under current law, a company with a tax-sheltered 401(k) plan can deny coverage to up to 30 percent of its lowest paid workers – the very people who need it most. In response to the Enron and other corporate scandals, President Bush claimed that he wants a pension system that treats "the shop floor like the top floor." But the pension reform bill passed by the House of Representatives that he supports would make matters worse by allowing employers to exclude even more lower paid employees from their plans, further eroding coverage for the very workers most at risk of slipping into post-retirement poverty. This provision alone is likely to cost New York's workers millions in reduced corporate contributions and federal tax subsidies.

The first principle of pension reform should be that workers get the same treatment as the top executives. At the very least, every employer that makes tax sheltered pension contributions for highly compensated employees should be required to make a minimum contribution on behalf of every full-time employee – for example, 3 percent of salary.

Real Pension Reform

In the past few months, newspapers and magazines have told story after story of catastrophic losses to worker pension plans occurring alongside massive pay-outs to some of America's richest executives. Our elected officials claim to be as outraged as the rest of us by this obscene wealth grab. Calls for pension reform have been heard from all points of the political spectrum. But despite this bipartisan indignation, House members have passed (and the Administration supports) a pension reform bill that will do little to curb the conflicts of interest, corporate greed and tax-sheltered inequity that plague our current pension system.

The good news is that the opportunity for real pension reform is better than ever. The bad news is that politicians no longer feel as responsible to their constituents as they do to their corporate donors. So while members of Congress collect fat checks from corporate heavyweights, working people get heavy rhetoric and lightweight legislation. These empty promises must be called into question.

So what does real pension reform look like? The Enron scandal has taught us where to start if we want to be serious. Pension reform should first do no harm. It is an outrage that some politicians can propose "pension reform" bills that would actually loosen restrictions on corporations so that they are freer to deny coverage to their lower-paid employees. In addition, new laws are necessary that would 1) Prevent over-concentrations of company stock in employee pension plans; 2) Empower employees to hold executives accountable for providing false information; 3) Give employees a seat on the investment boards that handle their money; 4) Require companies to adequately insure worker pension plans, thereby providing employees with a way to recover their lost monies; 5) Prohibit financial advisors from engaging in conflicts of interest.

A candidate who says she/he supports pension reform but ignores these key ingredients is practicing politics as usual. The risks of such shallow political behavior are higher than they have been in quite some time. After decades of a conservative campaign to weaken the laws that protect pensions and prevent corporate wrongdoing, corporate scandals like Enron were almost inevitable. It is now up to all Americans to force the political system to become more accountable and to protect and expand the retirement assets of New York's and America's hard working citizens.

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[1] Federal Reserve, Flow of Funds Account, Table L.119.c Private Pension Funds: Defined Contribution Plans (1),
June 2002.

[2] Based on tabulations of Current Population Survey (CPS), March 2002 supplemental data samples. The CPS is a joint project of the Bureau of Labor Statistics and the Bureau of the Census.

[3] United States Census, Bulletin 2550, Geographic Profile of Employment and Unemployment 2000, Table 13: www.bls.gov/opub/gp/pdf/gp00_13.pdf.

[4] Because of the limitations of available data, this analysis makes two assumptions: 1) Each state's share of losses was equal to its share of U.S. pension holders; and 2) losses to 401(k) plans occurred evenly across all states—in other words, New York's losses were equal to the national average.

[5] Economic Policy Institute analysis of March Current Population Survey supplement. The supplement is the Annual Demographic Survey conducted by the Bureau of the Census and the primary source of detailed information on income and work experience in the United States.

[6] U.S. Census Bureau 2001 poverty data, www.census.gov/hhes/poverty/threshld/thresh01.html.

[7] The protections provided to employee pensions through ERISA were born out of the collapse of the Studebaker automobile company in the 1960s. More than 4,000 employees lost their jobs and their retirement savings, revealing major problems with the country's pension system.

[8] Current Population Survey, March 2002 supplemental data.

AMERICANS LOSE $175.75 BILLION IN 401(K) SAVINGS:
Rates of Pension Coverage Remain Stagnant at Around 50 percent

	Percent with Pensions[1]	Total 401(k) Losses[2]
	(1998-2000)	(2000-2001: in billions)
Alabama	48%	2.69
Alaska	46%	0.37
Arizona	40%	2.42
Arkansas	42%	1.35
California	41%	18.20
Colorado	44%	2.65
Connecticut	54%	2.52
Delaware	51%	0.55
Florida	37%	7.17
Georgia	48%	5.25
Hawaii	50%	0.77
Idaho	44%	0.74
Illinois	52%	8.66
Indiana	55%	4.49
Iowa	53%	2.18
Kansas	52%	1.93
Kentucky	50%	2.56
Louisiana	43%	2.23
Maine	51%	0.93
Maryland	52%	3.80
Massachusetts	50%	4.27
Michigan	56%	7.67
Minnesota	57%	4.12
Mississippi	43%	1.48
Missouri	54%	4.17
Montana	42%	0.52
Nebraska	51%	1.24
Nevada	42%	1.08
New Hampshire	52%	0.94
New Jersey	51%	5.56
New Mexico	42%	0.91
New York	47%	10.78
North Carolina	48%	5.02
North Dakota	51%	0.46
Ohio	55%	8.27
Oklahoma	41%	1.79
Oregon	47%	2.19
Pennsylvania	56%	8.65
Rhode Island	53%	0.70
South Carolina	49%	2.52
South Dakota	49%	0.52
Tennessee	46%	3.37
Texas	43%	11.47
Utah	43%	1.24
Vermont	49%	0.43
Virginia	51%	4.87
Washington	50%	3.90
West Virginia	46%	0.97
Wisconsin	57%	4.40
Wyoming	46%	0.32
TOTAL U.S.	47.90%	$175.75

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[1] Pension Coverage: Economic Policy Institute analysis of March Current Population Survey (CPS) data;
[2] 401(k) Losses: Institute for America's Future calculations based on data from Census 2000, March CPS and the Federal Reserve's Flow of Funds Report, Winter 2001-02.