

Problems with Pension Plans

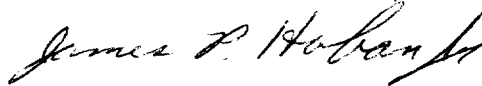
An Honors Thesis (HONRS 499)

by

Jack E. Keller

Thesis Advisor

Dr. James P. Hoban, Jr.



Ball State University

Muncie, Indiana

April 12, 1994

Graduation Date

May 7, 1994

Spa
Thesis
LD
248
24
10
245

Abstract

The purpose of the thesis is to research the problems facing pension plans in the United States and look at some possible solutions for the problems. The paper begins by illustrating the growth trend of pension plans from World War II to the near future. The reader gets a feel for the extreme growth experienced by pension plans and the difficulties inherited with this growth. Next the purpose of pension plans is defined and the plans are broken down into their separate divisions: defined benefit plans and defined contribution plans.

The paper proceeds by informing the reader about the regulation of pension plans through the Employee Retirement Income Security Act (ERISA) and Pension Benefit Guaranty Corporation (PBGC). The reader will get an understanding that the problems of pension plans are focused in the PBGC and the corporations which sponsor the plans. The paper ends by illustrating that the people held responsible for the shortfalls in corporate pension plans will be a big part of the solution.

Introduction

Pension plans have been in existence since pre-World War II but have only been regulated since 1974. Corporations have become large sponsors of employee pension plans, but some companies have begun to underfund their pension plans. This has caused the Pension Benefit Guaranty Corporation (PBGC), the government insurance agency for pension plans, to have problems staying solvent. The issue has become a huge liability for the government, and the problem needs to be addressed before it develops into another Savings and Loan crisis.

Growth Trends of Pension Plans

Pension plans were in existence before World War II, but this era is when writers begin their discussions about pension plans. At the end of World War II, few pension plans existed in the United States. In the early 1950s, households placed few financial assets in pension plans for savings. Gordon Sellon stated in his article, "... in 1952, households held only 6% of their financial assets in pension funds. By 1991, however, households placed 27% of their financial assets in pension funds" (Sellon 56).

One of the biggest increases in the percentage of employees covered by employer organized pension plans happened between 1950 and 1970. Private employer plans doubled from 15 percent of the labor force in 1950 to 31 percent of the labor force in 1970

(Sellon 54). From 1970 to the late 1980s, the formation of new employer plans had slowed.

The recent growth in pension plans has been the result of the increased amount and value of the assets in employer pension plan portfolios. Also, federal tax policies have been a factor in the growth of pension plans. The federal tax policies allow the employers to deduct their contributions. In the case of the employee, neither contributions nor interest on pension assets is taxable initially, but is deferred until retirement or when cash is withdrawn. These federal tax laws give the employees more incentive to save through pension plans rather than through a taxable form of saving for retirement.

In the future, most experts believe the growth of pension plans will slow once again. One reason is retirees receiving benefits are expected to out number the working contributors because of the gradual aging of the population. In addition, the cost of maintaining pension plans is increasing and may place pressure on companies, especially if poor markets diminish investment returns.

Purpose of Pension Plans

During these years of growth, pension plans have become one of the largest financial institutions in the United States' financial market in regards to assets. As a result, employer pension plans have become one of the most used instruments for retirement planning. The main purpose of an employer-sponsored

pension plan is to allow workers currently employed to set aside a portion of their current income for their retirement years.

Pension plans are more than an instrument for employees to save for retirement. Pension plans allow individual investors with limited funds to invest in assets that are available only in large denominations. Since pension plans are retirement oriented and need limited liquidity, the pension plan fund managers almost exclusively invest the funds in corporate stocks and long-term corporate and government bonds. The fund manager places the funds in these types of assets in expectation of building an even larger pool of funds from the financial returns.

Professional management of the pension funds is an important feature of pension plans. The choice of the investment instruments used in the portfolio of the pension plan is the responsibility of the fund managers. The employees can invest in a broad range of investments without having to investigate the companies issuing the stocks and bonds which are in a diversified portfolio.

Corporate Pension Plans

Two types of pension plans are used by employers: defined contribution plans and defined benefit plans. Defined contribution plans, also known as individual account plans, define the way the contributions will be allocated among the accounts of the participants. Defined contribution plans are usually secondary plans to the defined benefit plans. The effect

is to shift responsibility and risk from the employer to employee because the employee is usually the one deciding where the money will be invested, not the employer.

A defined contribution plan can directly define the contribution to be made by the employer. In other cases, a plan can leave the amount of contribution up to the employer's discretion. The amount of the retiree's benefits depend on the amount of employer and employee contributions, market performance, and investment returns.

Defined benefit plans provide employees with a specified benefit at the time of their retirement. The contributions to a defined benefit plan are based on actuarial calculations to ensure the future retirement benefits will be adequately funded and meet the requirements of the Employee Retirement Income Security Act (ERISA) of 1974. The employers are responsible for making sure the plan is adequately funded. If investment performance is worse than projected, the employers have to increase their contributions to the plan to meet the funding obligations.

Defined benefit plans are dwindling in use by employers and are being replaced by defined contribution plans. A report by John Hancock Financial Services states that in 1988, "86 percent of all new plans, including those of small companies, are defined contribution plans." John LaRusso of John Hancock says, "And almost all of the current funding-including companies that also have defined benefit plans-is going into defined contribution

plans" (Feinberg 34). The Employee Benefit Research Institute, a Washington-based benefits think-tank, projected in the year 2003 defined contribution plan assets will surpass defined benefit plan assets. The crossover point will occur at the dollar amount of \$5.75 trillion in assets (Chernoff, "Defined..." 1).

Employers are converting or starting defined contribution plans because they are not as hard to manage as defined benefit plans. There are several reasons why employers prefer defined contribution plans to defined benefit plans. First, defined contribution plans are not regulated by ERISA in contrast to the heavy regulation of defined benefit plans by ERISA. After ERISA was enacted, plan expansion favored defined contribution plans. In a four year period, new defined contribution plans grew at a 7 percent annual rate, while new defined benefit plans grew at a rate of 2 percent. In 1976, defined benefit plans hit their all time low with a 1.1 percent annual growth rate (Andrews 25).

Another reason for the change in preferred plans is pointed out by Robert Rudell, senior Vice President of Investors Diversified Services of Minneapolis, "many companies suddenly realized that defined benefit plans - like many health insurance plans - gave them an open ended liability" (qtd. in Feinberg 34). What Rudell meant by "open ended liability" is the employer is pressured to have the defined benefit available for the employees when they retire. This contrasts with the defined contribution plan where the benefit is dependent on the returns of the investments made using the employer and employee contributions.

The last reason is of benefit to the employee; the accrued benefits in a defined contribution plan can be taken with the employees if they switch jobs.

Employee Retirement Income Security Act

Pension plans were unregulated until 1974 when Congress passed the Employee Retirement Income Security Act (ERISA). Some of the rules imposed by ERISA include "...minimum vesting and funding standards, fiduciary rules, and reporting and disclosure requirements, and provided insurance against benefit losses arising from private pension plan terminations" (Ippolito 6). Some additional legislation established with ERISA was Individual Retirement Accounts (IRAs) and the Pension Benefit Guaranty Corporation (PBGC). Also, ERISA has been amended twice by the Retirement Equity Act (REA) in 1984 and in the Tax Reform Act of 1986 (U.S. Dept of Labor 3). ERISA's bottom line responsibility is to reduce the chances of plan participants not receiving promised benefits upon retirement.

The main purpose of a pension plan is to be a financial instrument to protect families against losing income in retirement years. Pension plans allow plan participants to set aside a portion of their current income to accrue benefits for retirement. Usually a plan participant begins to accrue benefits as soon as he/she joins the pension plan. The majority of plans have age and service requirements the employees must meet before they become plan participants. ERISA set the age requirement for

plan participants to begin at 25, but REA lowered the age requirement to 21 because many young employees were losing benefits because of short tenures with their earlier years of employment (Andrews 133). Both pieces of legislation allow plans to delay the accrual of benefits until the employee has two years of service.

REA was the first legislation since ERISA to encourage participation and vesting of benefits for retirement years. REA was enacted to allow additional protection of retirement benefits for women whose participation has been interrupted by pregnancy. It allowed breaks in service to be extended from one year to five years to provide women with extra time to return to work before they lose their pension status. Also REA provided protection for surviving spouses by changing joint-and-survivor provisions (Andrews 133).

Vested Benefits

Under ERISA the plan participant does not have a legal right to the accrued benefits until the benefits are vested. Vested benefits are accrued benefits that become nonforfeitable or a deferred benefit which the participant has gained based on required years of service. There are many formulas to calculate vested benefits, but under any of these options a plan participant is at least 50 percent vested after 10 years of service and 100 percent vested after 15 years (U.S. Dept. of Labor 10). Usually a vested right to a benefit can not be

forfeited due to misconduct of the participant or the participant accepting employment with a competitor.

An employee's participation credits, vested rights, and benefit accruals are usually based on years of service. ERISA defines a year of service as a twelve month period or 1000 hours worked by the employee (U.S. Dept. of Labor 14). ERISA offers protection for plan participants that may obtain a break in service. A break in service means that there were no contributions to the employee's plan for any number of reasons, such as pregnancy and temporary illnesses. The protection is for employees that have some vested benefits. Once a participant is partially vested, all of his/her service both before a break and after a break must be combined.

Regulation of Fiduciaries

An additional reason for the passing of ERISA was to bring pension fund managers under federal regulation because many retirees were receiving pensions smaller than expected. Usually these small pensions were due to bad investment decisions by fiduciaries. ERISA provides protection from financial losses caused by the mismanagement and misuse of assets by the fiduciary provisions. A fiduciary is anyone who exercises discretionary control or authority over the plan's assets or administration or provides advice to a plan for compensation. ERISA requires the fiduciary to discharge duties in the best interest of the plan participant, act in a prudent manner, diversify plan investments,

and operate in accordance with plan documents and instruments (U.S. Dept. of Labor 13). If the fiduciaries should breach any responsibility or duty under ERISA, they may be responsible for the losses caused by that breach or any profits made through improper use of the plan's assets.

Pension plans are to protect plan participants from losing income in retirement years by allowing them to set aside a part of their current income to accrue benefits. The assets in a pension plan are managed by a fiduciary. The assets are purchased with contributions from employers and the money from returns on the original investments. The fiduciary tries to invest in assets with the greatest potential returns because the better the returns of the assets, the less contribution that has to come from the employer or the plan participant.

ERISA has rules regulating the payment of pension benefits to retirees. The payments must begin, unless the participant decides on a later date, on the 60th day after the close of the employee's plan. Before payments begin, one of the following events must occur: the participant reaches the normal age of retirement for the participant's plan, the 10th year after the participant began participation occurs, or the participant begins work with another employer (U.S. Dept. of Labor 17).

ERISA does not regulate the amount of the payment received by the participant. However, ERISA does permit a pension plan to suspend the payment of benefits if the participant returns to work from retirement with an employer that maintains the

participant's plan. ERISA states that before the company suspends the benefits, the company must notify the participant of the suspension during the first calendar month in which the plan withholds payments.

Individual Retirement Accounts

Some employees are not covered by a pension plan. To encourage these employees not covered by private plans to voluntarily save money for retirement, Individual Retirement Accounts (IRAs) were established as a part of ERISA. An incentive for individuals to invest in IRAs is that the investor does not have to pay federal taxes on the contributions and accrued interest until funds are withdrawn from the plan. And ERISA charges a penalty for withdrawing funds before age 59 1/2 (Bodie 1). This is to discourage investors from using IRAs as tax shelters for non-retirement purposes.

ERISA regulates pension plan management, the payment of benefits, the participants, and employers. ERISA does not mandate employers to develop a pension plan. It sets guidelines for those employers who decide to have a pension plan for their employees. ERISA is even more than guidelines. It is an instrument used by the government to encourage the citizens to be aware that they need to do some saving for their retirement years. The government developed ERISA to protect the benefits for the retirement years, so all the citizens had to do was save their current income. ERISA was enacted to provide protection

and guidelines so plan participants do not lose their retirement benefits and pension plans do not become another funding vehicle for corporations to manipulate for their own use.

Pension Benefit Guaranty Corporation

Along with ERISA, Congress created the Pension Benefit Guaranty Corporation (PBGC) to administer a federally chartered insurance program. PBGC is a non-profit corporation which insures payment of benefits up to a statutory limit of about \$29,250 a year (Karr A1). Primarily the PBGC was developed to collect premiums, disburse required payments, define rates and rate changes, and ensure accounting standards. As of 1991, PBGC covered more than 40 million workers in about 85,000 pension plans (Shiver 10), and this coverage amounted to about \$900 billion in benefits.

The PBGC has an insurance fund to cover the obligations to the private pension plans. The fund is financed with the premiums from the employers which sponsor defined benefit plans. When the PBGC insurance fund was created, the premiums were set at \$1 per covered employee. Now there is a flat-rate premium of \$19 per participant. Pension plans which are poorly funded are also charged a variable-rate premium of \$9 per \$1,000 of underfunding, up to a combined ceiling of \$53 per participant (Chernoff, "PBGC..." 34). The higher premiums are due to the increased obligations of the PBGC.

When a plan is terminated or becomes insolvent without enough money to pay the vested pension benefits, the PBGC takes over the plan and makes the payments of the companies' existing obligations. The PBGC taking over the plan is not in the best interest of the employees because it usually means they are only going to get a portion of their benefits. In addition to the statutory limit, which is usually lower than the employees' expected benefits, the PBGC discounts the retirement payments according to the retirees's age. This can add up to a two-thirds cut for younger retirees (Karr A1). A good example of benefits being reduced is this article by Albert P. Karr,

As Pan American World Airways struggled to survive in the 1980s, the now-defunct airline sent letters to workers' homes, assuring them their pensions were protected under federal law, should worse come to worst.

But after Pan Am entered Chapter 11 bankruptcy proceedings and terminated the pension plan, workers got a jarring surprise, says Tom Christie, who was a jet-engine repair manager at New York's Kennedy airport: "You think your pension is intact, and then you find out it's not."

Mr. Christie, ... ,had been promised that if he left Pan AM, he would get a pension of more than \$1,000 a month ... But the federal Pension Benefit Guaranty Corporation, ... ,determined that it is obliged to pay

him only \$596 a month. After being out of work for 10 months, Mr. Christie has taken a job as an aircraft-maintenance analyst at less than half his former pay (Karr A1).

In addition, the PBGC does not even cover most early retirement supplements or other exemptions implemented by the company.

Reasons for Shortfalls in Pension Plans and the PBGC

The Pension Benefit Guaranty Corporation (PBGC) and pension plans have fallen under increased scrutiny in recent years. As of September 30, 1993, the PBGC took over terminated pension plans covering 52,000 people, double the earlier year's total of 26,000 (Karr A12). Since the PBGC was started, it has assumed responsibility for more than 1,700 plans involving 424,000 retirees and workers (Karr A12). The shortfall in the pension funds increased to more than \$50 billion from \$40 billion in the past year (Vise A16). Since the liabilities have increased quicker than the assets, the PBGC's shortfall has increased over the years from \$13.5 billion in 1988 to \$24.2 billion in 1991 (Shiver D9).

Experts have different opinions of why pension plans and the PBGC have shortfalls. Some of the opinions are conflicting. The main reasons for the shortfalls are low interest rates, differences in calculation of liabilities, and employers increasing their employees' benefits.

In "Pension Funds Shortfall Up Sharply" David A. Vise illustrates how two experts can conflict on the effects of interest rates on the gap in funding of pension funds. The experts involved are James B. Lockhart III, executive director of the PBGC, and Dallas Salisbury, president of the Washington-based Employee Benefit Research Institute. Dallas Salisbury believes pension plans have suffered because of weak earnings on investments due to low interest rates and believes the gap would be closed significantly when interest rates rose. James Lockhart disagreed with Dallas Salisbury, saying the increase in the gap of funding resulted from multiple factors and would not necessarily reverse when interest rates rose.

Another reason for the appearance of a greater underfunding than really exists is a bookkeeping issue. In February of 1991, the PBGC released its list of the top 50 underfunded pension plans. The list upset many companies because the PBGC did not account for a company's financial condition, as in cash flow, or its overfunded plans. The PBGC used a 7.25% discount rate to value funding liabilities, which is lower than the rate used by most companies (Chernoff, "PBGC..." 34). Also, the PBGC assumed retirees would die sooner than the companies' calculations, and companies used different assumptions about future interest rates or stock-market performance.

Navistar International Corporation, Chicago, was one of the companies complaining about the lists. Navistar pointed out PBGC's calculations of its pensions plans were flawed.

Navistar went on to say, "... the agency (PBGC) looked at plans at a termination basis instead of an ongoing basis, and ignored the company's cash-matched and duration-dedicated bond portfolio. Nor did the list reflect Navistar has reduced its pension underfunding to \$51 million as of October 31, down from \$1 billion in 1992" (Chernoff, "PBGC..." 34).

The main reason for the underfunding of pension plans and the deficit of the PBGC is companies increasing pension benefits quicker than they contribute to the funds. Companies have been increasing benefits to lure the best employees instead of luring employees by raising wages. The more generous benefits are costs that are not incurred for years and may be picked up by the government in the future. Some companies would rather promise bigger pension benefits than face the immediate costs of higher wages.

Neither the companies nor the workers are concerned with the ability of the company to pay the future benefits because of the PBGC guarantying the payment of these benefits. The guaranty of the PBGC causes management and employees to come up with an agreement which is more concerned with the short term than the long term interest of the company's stakeholders. The long term liabilities of pension benefits may cause companies to become uncompetitive in the long run, but there is no concern since the companies can dump the liabilities on the PBGC if they become financially weak.

More important than the company's ability to pay the future benefits is the company's actions of "grossly and willfully" underfunding its pension plans. "The concern is: where is the money going," says Steven Benson of Prudential Asset Management "Too much money is being cashed out and not going to long term retirement purposes" (qtd. in Feinberg 40). Some companies are even using the funds to finance the company's current activities and not repaying the funds to insure the payments of the promised pension benefits.

The PBGC is disturbed by the fact companies are doing what Pan Am did by holding back on pension contributions. Many companies have not only short changed their existing pension plans but also made their plans more generous without increasing the contributions. The PBGC predicts thirty companies may shift approximately \$8 billion in losses to the agency (Chernoff, "PBGC..." 34). This amount is about ten times the agency's income from annual premiums of insured companies. It is simply wrong when companies do not keep their pension promises to present and retired workers.

Groups That Will Be Held Responsible

Thomas J. Bergmann describes his interpretation of how the businesses in the United States have underfunded their pension plans. When an economy is growing and dominating the world markets, the higher cost of employees may be raised without much

impact on society. If the economy begins to decline, these costs could become too big a burden for companies.

Bergmann explains U.S. businesses prospered and dominated most of the world markets. Of course, due to this growth of industry, so did the wages and benefits of the employees. The increases were not based on the employee's basic needs or increased productivity but rather were based on the past experience of increases or the power and pull of unions or employees. At times, the companies had to give increases to the employees to avoid a strike or slowdown because the managers received even larger increases. Over the years, it became general practice to raise wages and benefits in time of prosperity even when increases were not justified.

Than in the 1970s, the competitiveness and strength of United States' businesses declined because of a weakened economy. The companies which had the best wages and benefits began to shrink and become underfunded. During the decline, employees and unions continued to demand increases, and management continued to get its perks and bonuses regardless of the companies' ability to pay.

If the companies are not able to pay, someone is going to have to take the liability of making up the difference. Since the pension plans are insured by the PBGC, Congress will have to involve the United States' government. Government intervention, although well-meaning in its inception, is usually destructive. In the case of pension plans, the government is destructive when

it does not require companies to back their benefit promises with assets and give the companies the option of dumping their obligations on a third party. These actions create opportunities for abuse and mismanagement.

An additional problem is the government does not fund itself. It has to get the funds from somewhere to pay the pension liabilities dumped upon the government. The taxpayers and the responsible companies will be the ones funding the government. So in the overall picture, taxpayers and responsible companies pay for the liabilities which are dumped on the government by the irresponsible companies.

Initially, it is the responsible companies paying for the unfunded pension plans of financially weak companies. Companies pay annual premiums to the PBGC to finance the insurance fund. The insurance fund is used to pay for the unfunded pension benefits. Since the PBGC has a deficit, one way to increase its funds is by increasing the annual premiums paid by the companies. In the long run the responsible companies are getting punished by paying higher premiums without any benefit to themselves because of certain companies being irresponsible and not properly funding their pension plans.

If the PBGC's fund ran out of money, the taxpayers would be making up the difference as they did in the Savings and Loan Crisis. The PBGC presently has enough money to meet its promise of paying up to \$2,250 a month to retirees for the funds for which it will be liable (Rosenblatt D12). The PBGC may need to

be bailed out if the mess gets worse because failed plans have already saddled the agency with a \$2.5 billion deficit (Pickle F11). Businesses and the taxpayers can not afford the burden of another failed federal insurance agency.

The increase in pension underfunding does not just affect the responsible companies and the taxpayers. An increased risk appears to active and retired workers in federally insured pension plans. Some of the workers may end up losing half or even more of the amount due to them from their pension plans.

Dallas Salisbury said James Lockhart and Republican J.J. Pickle (D-Tex.) and others, "...are making a mistake by raising fears about the health of the pension system because most companies and the agency have enough cash to pay benefits for years" (Vise A16). Salisbury also mentioned the PBGC is in much better condition in 1992 than in any year prior to 1985 but worse than 1991. Salisbury does not feel the system should want fully funded pension plans or want companies and the government to promise benefits they can not pay. He just does not believe there is any reason to panic.

In addition, the government only takes over the plan if the company fails financially. When the company is consistently profitable, retirees are in a different position. Christopher Bowlin, senior associate director of employee benefits for National Association of Manufacturers, explained the situation in this manner, "Would you rather be working for a company that has an overfunded plan but is going bankrupt? Or would you rather be

working for a financially strong company that has an underfunded plan?" (Shiver D9). Also, the plans the government says are underfunded do meet minimum funding requirements under the law.

While many companies with underfunded plans contend the PBGC overstates the pension system problems, the agency says it may be underplaying the danger because underfunding often worsens when a plan is terminated. J.J. Pickle believes the system has let the problem get bigger and bigger and is concerned with other matters. Attention has to be focused on the pension system problem before the United States has another disaster equivalent to the Savings and Loan crisis. Over the past few years, taxpayers have spent more than \$200 billion (Pickle F11). Many experts contend the Savings and Loan crisis was worsened because it was ignored for so long. James B. Lockhart, executive director of the PBGC, says the federal pension insurance system needs reforms to protect retirees, taxpayers, and responsible companies.

Solutions

Some measures have been taken to correct the problem, but there are many other things that can be done to correct the situation. All the people involved with the pension system are going to have to work together including the PBGC, Congress, responsible and irresponsible companies, labor unions and employees. Without the cooperation of all these sectors, the pension system will not be corrected.

Congress can make adjustments to the system through legislation. Congress can help the PBGC by changing the bankruptcy laws to assure that when a company goes bankrupt, it can not avoid making contributions to its pension plans. Also, the change in bankruptcy laws has to keep it from being too easy for troubled companies to transfer their pension obligations to the agency. If troubled companies can easily transfer their plans, the PBGC will be drained or have to raise premiums. Changes to the bankruptcy laws would give companies less incentive to terminate their underfunded plans.

One of the current proposed bills in Congress was introduced by Representative J.J. Pickle. The bill would require sponsors of underfunded pension plans to put up cash or collateral before promising more benefits. The bill will help in putting a dent in the problems with the pension system. But Congress has to be careful of not creating legislation that will cause companies to go out of business or into bankruptcy because Congress has forced companies to speed up funding.

The Supreme Court can play a part in correcting the system. On June 18, 1990, the Supreme Court gave PBGC a crucial victory against LTV Corporation and other troubled companies by giving it the power to regulate when an employer will resume responsibility for pension obligations. James B. Lockhart said all retirees can feel more secure since the Supreme Court has recognized the authority of PBGC to protect the insurance program against abuses. Also, the ruling will aid all retirees and

employees because their employers will not be burdened with premium increases to cover the LTV obligations (Greenhouse A1).

The PBGC has been focusing on ways to shrink its future losses. The PBGC encourages better funding of pension plans by publicizing poor funding practices. Also, it discourages termination of underfunded plans through negotiations and litigation, including the situation with LTV Corporation. The agency can impose stricter funding rules. Another way PBGC can shrink its deficit is by increasing the premiums paid by pension plan sponsors. The agency is reluctant to raise premiums because it does not want companies to cancel their pension plans altogether.

Another consideration is the PBGC becoming a private insurance company. The company might not extend coverage to the companies with inadequately funded plans, and if it did extend coverage to these companies, they would pay much higher rates. This would cause the determination of employee benefits to become a market controlled process. Companies would have to negotiate wages and pensions around their ability to pay and the skills and ability of the workers. If the company is not able to properly fund the pension plan, the company may have to drop the plan or pay a hefty price to get the insurance.

The workers can do something to insure their retirement benefits. Workers can begin their own retirement plans through Individual Retirement Accounts (IRA). Many workers are converting to IRAs because they are fearful of losing their jobs

and unwilling to count on pensions or Social Security. In April of 1993, several mutual funds and brokerage firms said this would be the end of the strongest IRA season ever. Most of the money is coming from people rolling over their payments from retirement plans when they change or lose their jobs. Some of the workers have taken it upon themselves to do their own protection of their retirement years, instead of counting on the government and their employers.

People taking care of their own retirement income was the way it was planned when pension plans and Social Security were developed. At first pension plans were used by companies to be a recruiting tactic to get the better workers. Now pension plans have become an expectation of workers when they join a company. People complain about Social Security not being enough to live on, but this is the way the government designed the plan. Social Security is supposed to be a supplement to other sources of retirement income, not the only source.

The pension problem can not be dealt with only from a political viewpoint. The solution to the problem should also include economic analysis and an identification of where the responsibility lies. Society has become accustomed to assume that someone has to make good on pensions. If it is not the companies, then government has to provide the pensions. It has become too easy for society to make private concerns a matter of public responsibility. People have lost sight of whose responsibility it is to provide for their retirement income.

People taking the responsibility for their retirement, whether it be through a company sponsored pension plan or individual plan, will be the best solution to the pension problem in the United States.

WORKS CITED

- Andrews, Emily S. The Changing Profile of Pensions in America.
Washington, D.C.: Employee Benefit Research Institute, 1985.
- Bodie, Zvi, John B. Shoven, and David A. Wise. Pensions in the
U.S. Economy. Chicago: The University of Chicago Press,
1988.
- Chernoff, Joel. "PBGC Trying to Shrink Deficit." Pensions and
Investments No. 5 Vol. 19 4 March 1991: 2(2).
- Chernoff, Joel. "Defined Contribution Soaring." Pensions and
Investments No. 6 Vol. 21 22 March 1993: 1(2).
- Feinberg, Phyllis. "Changing Times for Pensions Funds in the
1990s." Barron's Vol. 71 18 Nov. 1991: 34-42.
- Greenhouse, Linda. "High Court Ruling Supports Powers of Pension
Agency." The New York Times Vol. 139 19 June 1990: A1.
- Ippolito, Richard A. Pensions, Economics and Public Policy.
Homewood, Ill.: Dow Jones-Irwin, 1986.
- Karr, Albert P. "Risk to Retirees Rises as Firms Fail to Fund
Pensions They Offer." Wall Street Journal 4 Feb. 1993: A1.
- Pickle, J.J. "Pensions: Grand Plans Short on Funds." The New
York Times Vol. 142 11 July 1993: F11.
- Rosenblatt, Robert A. "Pensions Agency Raises Expected Losses by
\$6 Billion." Los Angeles Times Vol. 110 25 Oct. 1991: D1.
- Sellon Jr., Gordon M. "Changes in Financial Intermediation: The
Role of Pension and Mutual Funds." Federal Reserve Bank of
Kansas City; Economic Review Third Quarter 1992: 53-70.

Shiver Jr., Jube. "Pension Plans Face Growing Lack of Funds."

Los Angeles Times Vol. 111 20 Nov. 1992: P1.

United States. Department of Labor Pension and Welfare Benefits Administration. "What You Should Know About the Pension

Law." May 1988. U.S. Government Printing Office: 1989.

Vise, David A. "Pension Funds Shortfall Up Sharply"

The Washington Post Vol. 116 13 Dec. 1992: A16.