

## Viva the Vital

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### No Bail-Out for Retirement

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It's dawning upon the working members of society that the great American dream of corporate- and government-endowed retirement at age 65 is a shimmering mirage.

With the economy in a tail-spin and the federal government racking up mind-boggling deficits, Baby Boomers, Generation Xers and the Millennial generation are increasingly skeptical that the social safety net -- the latticework of corporate and government retirement benefits accrued over 40 years of labor -- will provide them the comfortable post-65 lifestyle that today's seniors enjoy.

The corporate safety net has been fraying for years. Businesses began trimming unsustainable retirement benefits back in the 1990s. According to the Center for Retirement Research, the number of companies with 200 or more workers that offer retiree health insurance fell from 66% in 1988 to 33% in 2005.

Additionally, corporations have been shifting their retirement benefits from defined-benefit plans (a "pension"), which guarantee a payout, to defined-contribution plans like 401(k)s, in which the benefit varies with market conditions. Since 1978 the number of private-sector employees covered by pension plans has plunged from 41% to about 21%. That massive transfer of risk has saved corporations trillions of dollars in the current downturn -- but cost employees a like amount.

The federal government hasn't cut back benefits -- yet -- but everyone knows that spending is unsustainable. The difference is that government is run by politicians who ignore Generally Accepted Accounting Practices with impunity. If private-sector accounting standards were applied to the federal government, most members of Congress would follow ponzi-scheme maestro Bernie Madoff to the federal pen. Even so, it's public knowledge that Uncle Sam is accruing trillions of dollars of liabilities yearly for which it sets aside no money.

According to the 2008 annual report of its board of trustees, Social Security faces a \$4.3 trillion shortfall (in present value terms) over the next 75 years. The funding gap for Medicare is so massive that its annual report doesn't even provide a comparable number. But the trustees do note that Medicare Part A literally will run out of money by 2018; the revenue coming in will suffice to cover only 45% of projected expenses. Ouch. Cancel that heart bypass.

Then there's Medicaid, which funds long-term care for the indigent. Outlays are expected to double to \$673 billion by 2017, making an ever-growing claim on state and federal budgets. The chief actuary's report for Medicaid doesn't calculate a net present value for future obligations. But it's massive. And spending increases are unsustainable.

So, how are Americans reacting to the disintegration of their safety net? Remarkably, one thing they're not doing is staging mass protests or launching general strikes like French workers did two years ago when President Nicolas Sarkozy tried to curtail their retirement benefits. Maybe that's because 60-year-olds can't hurl rocks and Molotov cocktails without throwing out their rotator cuffs. Or maybe it's because the problem is so big that people see no point in asking Congress to live up to its promises.

Instead, Americans are quietly adjusting, shrugging their shoulders and saying, "I'll guess I'll have to take care of myself."

By the millions Americans are recalibrating expectations of when they will retire. In a January Sun Life Financial survey, 54% of American workers said were planning to delay their retirement by at least one year; 24% said they will need to work more than *five* extra years. The new attitude is especially prevalent among Boomers, and it represents an extraordinary reversal of a decades-old trend toward earlier retirement.

Americans also are spending less and saving more. After living beyond their means for a decade or longer, most have failed to build meaningful retirement savings. But the economic debacle of the past year has been a "wake up call," reports insurance giant MetLife in a recent study. Spurning the manic accumulation of material possessions, many Americans are redefining the American Dream: Less emphasis on buying "stuff," and more on family, friends, children and marriage – a wave of frugality that we at the Boomer Project dubbed the "new fru" last fall.

Increasingly, says MetLife, Americans of all generations are intent upon creating their own "personal safety net" – without the help of government. Generation X and the Millennial Generation are leading the way: building up cash cushions, putting money into retirement savings plans, and taking out more insurance.

What an irony. The United States has elected an activist president and a Congress that are spending trillions of dollars on bail outs and stimulus packages benefiting every special interest with a hand out, but most Americans distrust the government to keep its bedrock promises to the little guy. Judging by their actions rather than their votes, Americans expect little from Uncle Sam. Instead, they are embracing the old-fashion virtues of thrift and self reliance. In today's troubled times, that is a rare piece of good news.