# Chapter 2
# Sources of Retirement Income: Social Security, Private Savings and Corporate Pension Plans

Clearly all three figurative legs, i.e., Social Security, personal savings, and public and private pensions in the nation's metaphorical retirement stool face challenges, and policymakers at all levels of government continue to tussle with adequate policy responses to these challenges. Prior to delving into a detailed analysis of public retirement plans across the country, including the results of The Council of State Governments' Southern office survey, this chapter performs a quick fiscal review of the remaining sources (Social Security, private savings, and corporate pension plans) from which America's retirees secure their income.

## Social Security

The industrialization of the American economy began in the latter half of the 19th century, transforming the nation into a land of employees increasingly dependent on a flow of money income for their survival and their families' survival.[1] During this economic and social transformation, the federal and a number of state governments concluded that some of the inherent risks involved in ensuring this survival could be mitigated through a social insurance approach to public welfare. Hence, the concept that social insurance programs based on contributory financing, available as a matter of right, in contrast to public assistance programs earmarked only for those in need, gathered momentum in the early years of the 20th century. In the initial decades of the last century, there was movement, both at the federal and state levels, to provide compensation for workers, or their survivors, injured or killed in connection with their jobs. Retirement plans for certain groups of state and local government employees (mostly teachers, police officers and fire fighters) emerged during these early decades. The onset of World War I also resulted in the federal government providing benefits and services for persons who served in the armed forces.

The need for federal action became a vital necessity given that neither states nor local communities nor private charities had the financial resources to meet the desperate needs of a vast number of Americans confronting the rigors of the Great Depression in the late 1920s. Consequently, in 1932, the federal government delivered loans and then grants to states to pay for direct relief and work relief to deserving individuals. Eventually, in August 1935, in response to President Franklin D. Roosevelt's economic security proposals, Congress enacted the Social Security Act, undoubtedly one of the most important laws in the history of the nation.[2]

Specifically, this law established two social insurance programs on a national scale designed to meet the needs of the aged and the unemployed: a federal system of old-age benefits for retired workers who had been employed in industry and commerce, and a federal-state system of unemployment insurance.[3] While these benefits first became available in 1940, two years ahead of schedule, Congress then expanded the old-age program to include benefits to dependents of retired workers and surviving dependents of deceased workers as well. While there were no major changes in the program until the 1950s, the ensuing decades saw various amendments to the program, including the addition of disability insurance, automatic cost-of-living increases and computing benefits to ensure stable replacement rates.

Perhaps the most important piece of legislation enacted under the rubric of the Social Security Act involved the establishment of the Medicare program in 1965. This program pays for the hospital bills of beneficiaries, 65 years and older, regardless of income. (In 2003, a prescription drug coverage program also was included in the Medicare program.) Major changes were enacted to the Social Security program in 1983 when an amendment provided for gradual increases in the age of eligibility for full retirement benefits from 65 to 67, beginning with persons reaching age 62 in the year 2000. For certain higher income beneficiaries, benefits became subject to income tax too.

In terms of its financing, the Social Security program is primarily a pay-as-you-go system. A bulk of the payroll taxes collected from today's workers are deployed to pay benefits to today's recipients. The ability of the system to continue meeting its financial obligations has been under increasing scrutiny in the past two decades, an issue that has captured the attention of policymakers and citizens alike. In fact, the unprecedented economic boom experienced in the country during the 1990s, when the U.S. economy grew uninterrupted for 10 consecutive years (March 1991 to March 2001), significantly boosted the Social Security trust fund's bottom line. As a result, the year at which the fund would start paying out more than it receives was postponed. Yet, government officials have been forecasting for some years now that the retirement insurance and healthcare funds for the elderly, both financed through payroll taxes, will approach insolvency as more post-World War II baby boomers approach 65.

According to the latest (2004) annual report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds, the entity charged with administering the Social Security trust fund, the following findings remain important.[4]

» At the end of 2003, 47 million people were receiving benefits: 33 million retired workers and their dependents, 7 million survivors of deceased workers, and 8 million disabled workers and their dependents. During the year, an estimated 154 million people had earnings covered by Social Security and paid payroll taxes. Total benefits paid in 2003 were $471 billion. Income was $632 billion, and assets held in special issue U.S. Treasury securities grew to $1.5 trillion.

» The Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) trust funds, individually and combined, are adequately financed over the next 10 years under the intermediate assumptions. The combined assets of the OASI and DI trust funds were projected to increase from $1,531 billion at the beginning of 2004, or 306 percent of annual expenditures, to $3,584 billion at the beginning of 2013, or 442 percent of annual expenditures in that year. In the 2003 report, combined assets were projected to rise to 309 percent of annual expenditures at the beginning of 2004, and 461 percent at the beginning of 2013.

» Under intermediate assumptions, the combined OASI and DI trust funds are projected to become exhausted in 2042. For the 75-year projection period, the actuarial deficit is 1.89 percent of taxable payroll, 0.03 percentage point smaller than in last year's report. The unfunded obligation for OASDI (both the Old-Age and Survivors Insurance and Disability Insurance programs combined) over the 75-year period is $3.7 trillion in present value, $0.2 trillion more than the obligation estimated a year ago.

» The OASDI annual cost rate is projected to increase from 11.07 percent of taxable payroll in 2004, to 16.83 percent in 2030, and to 19.29 percent in 2078, or to a level that is 5.91 percent of taxable payroll more than the projected income rate for 2078. Expressed in relation to the projected gross domestic product (GDP), OASDI cost is estimated to rise from the current level of 4.3 percent of GDP to 6.3 percent in 2030 and to 6.6 percent in 2078.

» Between about 2010 and 2030, OASDI costs will increase rapidly due to the retirement of the large baby-boom generation. After 2030, increases in life expectancy and relatively low fertility rates will continue to increase Social Security system costs, but more slowly. Annual cost will exceed tax income starting in 2018, at which time the annual gap will be covered with cash from redeeming special obligations of the Treasury, until these assets are exhausted in 2042. Separately, the DI fund is projected to be exhausted in 2029 and the OASI fund in 2044.

» Under the long-range intermediate assumptions, the combined OASDI trust funds are projected to become insolvent, i.e., unable to pay scheduled benefits in full on a timely basis, when assets are exhausted in 2042. At that point, payroll taxes and other income will flow into the fund but will be sufficient to pay only 73 percent of program costs.[5]

» In the area of demographic challenges confronting the program, the number of retired workers is expected to expand rapidly beginning in 2008. This is the year when members of the post-World War II baby boom begin to reach early retirement; then, the number of retired workers will double in less than 30 years. Also, compounding this trend are the twin facts that Americans are living longer and that American birth rates are lower compared to earlier times. Consequently, the ratio of workers paying Social Security taxes to people collecting benefits will drop from 3.3 to 1, currently, to 2.1 to 1 by 2031. Unfortunately, at that ratio, there will be insufficient workers to pay scheduled benefits at current tax rates.[6]

» For the trust funds to remain solvent throughout the 75-year projection period, the combined payroll tax rate could be increased during the period in a manner equivalent to an immediate and permanent increase of 1.89 percentage points, benefits could be reduced during the period in a manner equivalent to an immediate and permanent reduction of 12.6 percent, general revenue transfers equivalent to $3.7 trillion (in present value) could be made during the period, or some combination of approaches could be adopted. Significantly larger changes would be required to maintain solvency beyond 75 years.

Further roiling the retirement plans of senior Americans was the revelation in late March 2004 that the Medicare program, the other program of critical assistance to seniors, will be completely depleted by 2019, seven years sooner than predicted just last year.[7] Without changes in a program that is rapidly being overrun by skyrocketing health costs, the trustees' annual report notes, "raises serious doubt about the sustainability of Medicare under current financing arrangements."[8]

When Federal Reserve Board chairman Alan Greenspan, in testimony before the U.S. Congress in February 2004, urged lawmakers to slash future benefits in Social Security and Medicare, a series of alarm bells ricocheted through the federal government. Chairman Greenspan's recommendation to push up the age at which beneficiaries could begin receiving Social Security and Medicare further underlined the feeble foundation on which a vast number of Americans continue to build their retirement dreams.

In June 2004, the Congressional Budget Office (CBO) issued a report on the long-term financial viability of Social Security.[9] In general, the conclusions reached in the CBO study mirror those reached by the Social Security Trustees and described earlier. Perhaps the most important conclusions reached in this study include the fact that annual outlays for Social Security are projected to exceed revenues beginning in 2019 (the Social Security Trustees expect this to occur in 2018) and the fact that CBO projects that the trust funds will become exhausted in 2052 (the Social Security Trustees expect this to happen in 2042). These differences spring from the more optimist economic assumptions made by CBO in making these long-term predictions. Table 3 documents these differences.

**CBO's and the Social Security Trustees' Long-term Economic Assumptions**

| | CBO (June 2004) | Social Security Trustees (March 2004) |
|---|---|---|
| Real Earnings Growth | 1.3% | 1.1% |
| Real Interest Rate | 3.3% | 3.0% |
| Inflation | 2.2% | 2.8% |
| Unemployment Rate | 5.2% | 5.5% |

table 3

Source: Congressional Budget Office

As depicted in Table 3, there is a slight variation in the long-term assumptions made in the two reports resulting in the CBO providing a slightly more optimistic forecast for Social Security's future. In conclusion, despite the slight variation in the numbers, they do point to the same conclusion: "that under current law, the program will generate a sustained and significant demand for budgetary resources" in the future.[10]

## Personal Savings

Retirement planners are quick to point out that personal savings should be an important contributor to the income of retirees. Yet, for nearly three decades now, the total personal saving rate of U.S. households has been falling. It should be mentioned that this trend is not a phenomenon unique to the baby boomer generation; it is a trend reflective of American society in general. In fact, there is research published in the last 10 years demonstrating that the financial behavior of baby boomers has not been fundamentally different than that of previous generations.[11] Table 4 provides information on personal savings rates for the past 30 years, 1973 to 2003.

| Personal Savings Rate and Disposable Income (Billions of Dollars) 1973-2003 | | | |
|---|---|---|---|
| **Year** | **Disposable Personal Income** | **Personal Savings** | **Percent** |
| 1973 | $978.3 | $102.7 | 10.5 |
| 1978 | $1,608.3 | $142.5 | 8.9 |
| 1983 | $2,608.4 | $233.6 | 9.0 |
| 1988 | $3,748.7 | $272.9 | 7.3 |
| 1993 | $4,911.9 | $284.0 | 5.8 |
| 1998 | $6,395.9 | $276.8 | 4.3 |
| 2003 | $8,202.9 | $165.6 | 2.0 |

table 4

Source: U.S. Department of Commerce, Bureau of Economic Analysis

As indicated in Table 4, during the past 30 years, savings as a proportion of disposable income has declined steadily. For the period represented, from a high of 10.5 percent of disposable income in 1973, this proportion declined to 7.3 percent by 1988, and to a mere 2 percent by 2003. Of note, the savings rate reached a high of 11.2 percent in 1982 and a low of 1.7 percent in 2001, the two bookends of this statistic for the time period reviewed. Figure 1 further illustrates this trend by graphically presenting personal savings as a percent of disposable personal income for the period 1973 through 2003.

Even though the baby boomers, people born between 1946 and 1964, comprise one of the largest and most affluent generations in American history, there is concern that a cohort within these boomers has not accumulated sufficient private savings to fully finance their retirement.[12] Even though these baby boomers are on track to secure higher income levels than their parents, it is estimated that a quarter of these households have failed to accumulate significant savings to last them through retirement.

Another factor affecting the ability of Americans to draw on their personal savings during retirement is the crushing level of debt accumulated in recent years. According to the Federal Reserve Board, total consumer credit at the end of 2003 amounted to a staggering $2 trillion, up from $1.5 trillion, a scant four years before that in 1999. Total consumer credit, including both the revolving and non-revolving varieties, to such entities as commercial banks, finance companies, credit unions, savings institutions, non-financial businesses and pools of securitized assets, rose from $1.5 trillion in 1999, to $1.7 trillion in 2000, to $1.8 trillion in 2001, to $1.9 trillion in 2002 before topping off at the aforementioned $2 trillion last year.

For many Americans, the last few years signaled the onset of a huge borrowing spurt as they accumulated debt to purchase new homes, computers, cars, other big-ticket items and refur-

**Personal Savings Rate as a Percent of Disposable Income 1973-2003**

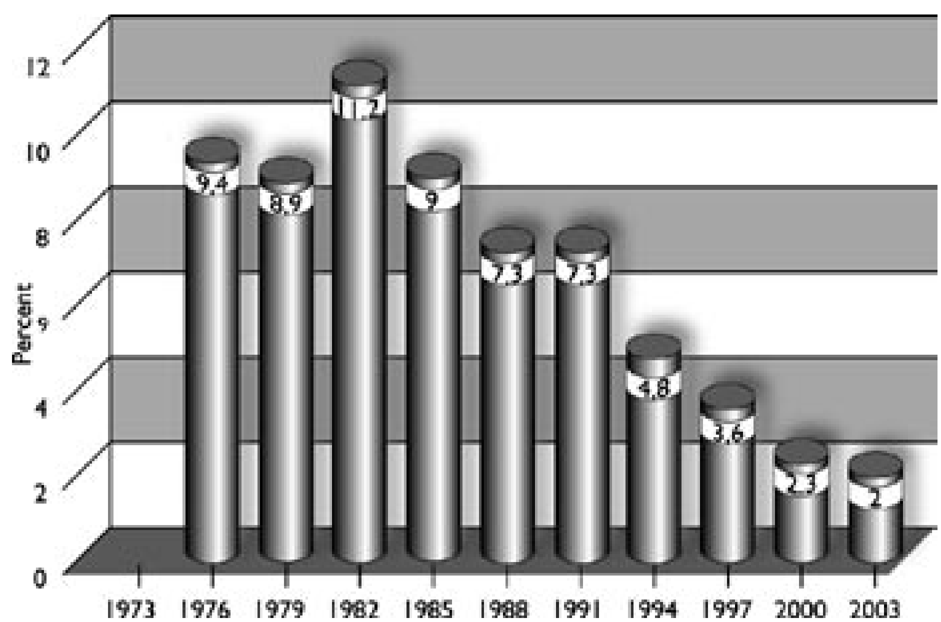


figure 1

Source: U.S. Department of Commerce, Bureau of Economic Analysis bish their homes with home equity lines. In addition, given the fact that in the aftermath of the 2001 recession millions of Americans lost their jobs, an increasing number of them used credit cards to pay for essential expenditures during this time of unemployment. Furthermore, by spring 2004, long-term unemployment was the worst it had been in more than 20 years--22.1 percent of all unemployed workers were out of work for six months or more in 2003--the worst annual rate since 1983,[13] and as a result, an increasing number of families have had no recourse but to accumulate greater levels of debt in order to stave off bill collectors and meet basic expenses.

Yet this accumulation of debt has resulted in a robust rate of consumer spending, often touted as the mainstay of the economy in recent years, particularly in the aftermath of the 2001 recession. Consumer spending expanded at a 4 percent annual rate in the final quarter of 2003, after spurting ahead at an 8.2 percent annual rate in the third quarter of 2003. However, this borrowing binge has resulted in household debt reaching nearly 83 percent of gross domestic product (GDP), up from 70 percent in 1999.[14] Alongside the accumulation of this colossal level of debt, another disconcerting fact concerns the possible implications to consumers when interest rates rise from their historically low current levels, particularly for those consumers locked into variable rates.

Notwithstanding the declining personal savings rate and the overwhelming increase in household debt, a related trend should be mentioned here: the increase in home ownership statistics. Data show that in recent decades, an increasing number of Americans have devoted resources to purchase their own homes. Hence, an argument could be extended that even though, in general, American households are saving a smaller proportion of their disposable income, the increase in home ownership rates partially offsets these shrinking savings efforts. The diversion of disposable income to pay down mortgages could be construed as a form of savings; undoubtedly, the purchase of a home for most American households amounts to the purchase of their largest asset. So, even though American households allocated diminishing amounts of disposable income toward personal savings, the fact that there was a marginal increase in home ownership rates in the past several decades remained a positive development. As demonstrated in Table 5, national homeownership rates remain at an all-time high, currently up from 62.1 percent of all households in 1960 to 68.3 percent in 2003, some 43 years later.

**Homeownership Rates as a Percent of Total Households 1960-2003**

| Year | Percent | Year | Percent |
|---|---|---|---|
| 1960 | 62.1 | 1990 | 63.9 |
| 1965 | 63.3 | 1995 | 64.7 |
| 1970 | 64.2 | 2000 | 67.4 |
| 1975 | 64.6 | 2001 | 67.8 |
| 1980 | 65.6 | 2002 | 67.9 |
| 1985 | 63.9 | 2003 | 68.3 |

table 5

Source: U.S. Department of Commerce, Bureau of the Census

As displayed in Table 5, reforms related to the mortgage application process and the record low interest rates experienced in the past few years have propelled an increasing number of Americans to purchase homes. This has enabled a stunning number of American households to take that all-important step of owning their own homes. An important corollary in this impressive expansion in the number of American homeowners involves the record low mortgage rates prevalent in recent years, the lowest in more than four decades, and the flexibility and ease at which prospective home buyers may apply and qualify for a mortgage.

## Corporate Pension Plans

The announcement in 2004 from the executive director of the Pension Benefit Guaranty Corporation's (PBGC), the federal entity that protects the pensions of 44 million American workers, that while his agency has "sufficient assets to pay benefits to workers and retirees for a number of years, the growing gap between our assets and liabilities puts at risk the agency's ability to continue to protect pensions in the future,"[15] only confirmed what a growing number of analysts had been stating for the prior few years. This gloomy outlook was only corroborated when the PBGC assumed trusteeship of the Bethlehem Steel pension plan in 2003, absorbing not only the largest single plan (95,000 participants) in its history up to that point but also the largest loss from one company (about $3.6 billion).[16] For the rest of 2004, the outlook does not appear any cheerier, a development confirmed in Congressional testimony in October 2004 by the PBGC's executive director who noted that "we will be reporting a significantly increased deficit for the 2004 fiscal year."[17]

For the past three years or so, certain analysts have been drawing attention to the fact that America's corporate pension system was a ticking time bomb with the potential to explode like the savings-and-loan crisis of the 1980s.[18] The nation's aging workforce and the decimation of the stock markets in the 2000 through 2002 period created a massive underfunding of corporate pension funds. These analysts had been drawing attention to the fact that if policymakers, primarily at the federal level, did not initiate corrective action, the PBGC, in its role as the insurer for these corporate pension plans, would be forced to meet the defined benefit obligations of millions of retirees. In mid-2003, the level of underfunding at these corporate plans (defined benefit) was estimated to be in the $300 billion range[19] and by late February 2004, it was estimated that employers would need to add $350 billion to pension funds.[20] In mid-August 2004, Standard & Poor's announced in its latest *Pension Status Report* that while improving from the prior few years, at year-end 2003, the overall position of the 362 S&P 500 companies offering defined benefit pensions improved from an underfunded level of $219 billion at year-end 2002 to an underfunded level of $165 billion. For year-end 2004, Standard & Poor's estimates that the level of underfunding will improve but still record a shortfall of $112 billion. Nevertheless, the current level of underfunding is a far cry from the $280 billion surplus recorded at year-end 1999 for the 362 companies in the *Pension Status Report*.[21]

Undoubtedly, the combination of problems ailing the Social Security and Medicare systems, along with the fiscal problems of numerous corporate pension plans, coalesced to create a veritable witches brew of nettlesome issues for policymakers. Once again, a familiar list of "structural" culprits continues to plague the underfunded pension plans in corporate America today. The same inter-generational conflict that confronts the Social Security and Medicare programs presently remains the most important factor here: the proportion of workers to retirees has been dropping in recent decades. For instance, in 1985, there were about three workers for every retiree in pensions insured by the PBGC; in mid-2003, this ratio was in balance, and it is estimated that by 2006, beneficiaries are expected to outnumber workers by nearly 12 percent. Another example from General Motors further illustrates this point. At the end of 2002, General Motors already had substantially fewer U.S. workers (177,000) than retirees (437,000), a startling ratio differential.[22]

Other demographic trends play a role too, such as the fact that Americans are living longer in retirement as a result of earlier retirement and longer life spans. According to the PBGC, an average male worker spends 18.1 years in retirement compared to 11.5 percent in 1950; consequently, an additional seven years of retirement must be funded with a diminishing pool of workers.[23] Rising healthcare costs in America, often at staggering double-digit annual growth rates, are a trend that has been extensively documented, a development that erodes the resources of both private and public pension plans. As mentioned earlier, since Americans are now living much longer, their healthcare needs also increase exponentially, a trend that further taps into these pension funds.

Another major structural impediment to the funding levels of corporate pension plans relates to the steep, concurrent drops in both equity values and interest rates. Companies with these defined benefit plans invest in stocks and bonds to ensure a flow of income to meet future retiree payments, factoring in such criteria as workers' salaries, age and life expectancy. Using actuarial calculations, among other techniques, assumptions are then made about the earning potential of these instruments. As is often the case, these investment earnings can deviate from the initial assumptions and the corporate pension funds are either underfunded or overfunded. During the booming equity market scenario of the mid-to-late 1990s, a majority of these defined benefit corporate pension plans were flush; that scenario changed radically during the next few years, particularly in the precipitous collapse of the equity markets between 2000 and 2002.

A report, released by Wilshire Associates in May 2003 on the defined benefit plans of S & P 500 companies, documented this alarming trend.[24] Accordingly, 2002 was the worst year ever for these corporate pension plans with their assets falling by $106 billion to $892 billion, while liabilities increased by $105 billion to $1,069 billion. As a result, the funding ratio (assets divided by liabilities) for all plans combined dropped from 104 percent to 83 percent; a $34 billion surplus at the beginning of the year was transformed into a $177 billion deficit by the end of the year. In addition, the report noted that 89 percent of corporate pension plans were underfunded with the median (50th percentile) dropping to 78 percent, down from 93 percent exactly a year before.

While the drastic collapse of the equity market (and interest rates) saw the asset holdings of these corporate pension plans evaporate rapidly, analysts now are raising questions regarding the specific investments made by these pension plans. For instance, United Airlines, which announced in August 2004 that it would likely terminate and replace its employee pension plans to cut costs, "invested a larger-than-than-average share of its

$6.6 billion pension portfolio in illiquid investments, while also investing liberally in junk bonds, technology and pharmaceutical start-ups, even a gold mining company in Ghana."[25] While such investments were not out of the ordinary for any number of other corporate pension funds that experienced precipitous shortfalls in the 2000-2002 "bear market," the difference was this downturn coincided with the airline's own business troubles. While certain companies that experienced losses during the 2000-2002 period were able to re-direct some new monies into their pension plans in the post-2002 period, United Airlines' parent company is in bankruptcy and was not in a position to replace the pension assets lost in the stock market downturn. Even the stock market rebounding in 2003 did not alleviate United Airlines' beleaguered pension plan; at the end of 2003, while United Airlines' pension plan had $6.9 billion in assets, this still was a mere 53 percent needed to pay its $13.1 billion of obligations to retirees.

Another structural problem confronting corporate pension plans deals with the weaknesses in current funding rules.[26] In particular, the PBGC notes that the low limits set for funding targets remains a major impediment to the financial health of these plans. According to current law, employers can stop making contributions when a pension plan reaches 90 percent of "current liability." Unfortunately, current liability does not reflect the plan's termination liability, which is the total cost of providing annuities as fixed by group annuity prices in the private market. In addition, "there is relatively little consequence to acting irresponsibly and not funding pension promises."[27] Bethlehem Steel presented a claim of $3.7 billion after paying a little over $60 million in premiums. In fact, while Bethlehem Steel reported that its pension plan was 84 percent funded on a current liability basis even though it was only 45 percent funded on a termination basis. Similarly, even though United Airlines' credit rating hovered in junk bond territory for some time and its pensions were underfunded by more than $5 billion on a termination basis since 2000, the airline paid a mere $50 million in premiums to the PBGC. Unfortunately, the termination of United Airlines' plans will result in a loss to the fund of more than $6 billion. Both these pension plans were trusteed* by the PBGC in 2003.

The funding rules often permitted "contribution holidays" even for seriously underfunded plans. The example cited here is US Airways not making a single cash contribution to its pension plan for pilots for four years prior to termination. When US Airways announced in September 2004 that it was suspending contributions to pension plans for all employees, its pension plan already was underfunded by an estimated $2.3 billion, almost all of which was ($2.1 billion) guaranteed by the PBGC.[28]

The announcement by United Airlines in July 2004 that it would no longer contribute to its pension plans and the tottering financial condition of the PBGC raised the specter of the federal government having to lead another multibillion-dollar taxpayer bailout akin to the bailout of the savings and loans industry in the 1980s.[29] United Airlines, like so many of its companions in the airline industry, is striving to improve its cash position by attracting lenders and investors while radically slashing costs. Hence, United Airlines' efforts to cast off most or some of its more than $13 billion in pension obligations will be a major step in enhancing its cash position. If United Airlines succeeds in its efforts, a number of other airlines might be tempted to adopt this strategy and if every airline with a traditional pension plan were to default, the federal government is estimated to be left with an expense approaching $31 billion. Mirroring United Airline's actions, in mid-September 2004, US Airways, the nation's seventh largest airline, alongside filing for bankruptcy reorganization, announced that it would forgo a $110 million payment owed to its employee pension plan.[30]

Another structural problem ailing these corporate pension plans involves reforms necessary to improve the accuracy and transparency of pension information. About three years ago, corporate America faced a spate of serious scandals. The impact of these scandals continues to affect investor confidence, engulf big and small companies across a number of sectors, erode the markets and severely damage America's economic image across the globe. Beginning with Enron, once the nation's largest energy trader, these corporate scandals soon overwhelmed Adelphia Communications, Arthur Andersen, Bristol-Myers Squibb, Computer Associates, Dynergy, Global Crossing, Halliburton, ImClone Systems, Merrill Lynch, Qwest Communications, Tyco International, WorldCom and Xerox, among others. While some of these companies survived, a number of them were forced into bankruptcy and even liquidation. The unfortunate consequence of these corporate failures was that the

* When the PBGC assumes responsibility for a terminated corporate pension plan, it is referred to as having been "trusteed."

thousands of employees with their life savings and future retirement income tied up in the stock of the companies now face a positively bleak future. In addition, public sector retirement systems that had invested in these companies also faced significant losses prompting a spate of calls for reforms in the manner in which these retirement funds implement their investments.

A few examples from around the country help illustrate this point. Georgia's retirees lost a sizable $122 million after the collapse of Enron Corporation, with the state Teachers' Retirement System losing $79 million and the State Employees' Fund losing $43 million.[31] Critics contended at that time that Georgia could have avoided some of those losses, second only to much larger pension plans in Florida and California, if the state had emergency triggers ("stop loss strategies") in place to sell plummeting stocks. In North Carolina, State Treasurer Richard Moore has been demanding that mutual funds and others handling the tens of billions of dollars in state retirement money provide better disclosure of fees and place limits on trading by their employees.[32] As indicated by the treasurer, funds that do not adopt the guidelines laid out risk losing the state's business. Similarly, current and former employees of Enron, Lucent Technologies, IKON Office Solutions, Nortel Networks and Providian Financial have filed suites alleging breach of fiduciary duty in their corporate retirement plans; all of the suits center on losses in company stock.[33]

In a similar vein, the officers of state pension funds have been much more vocal in expressing their concerns about the management practices of the corporations their funds have invested in. State pension funds are widely attributed to have been pivotal in the decision to oust the former head of the New York Stock Exchange over his compensation package in September 2003.[34] Since then, these state retirement fund executives have continued to voice their disapproval over bloated executive compensation packages and conflict of interest among corporate board of directors. In early March 2004, a group of pension fund executives indicated that they would withhold a vote to re-elect Michael D. Eisner, then Chairman and Chief Executive Officer of the Walt Disney Company, and other company executives, including members of Disney's audit committee. Given that these funds cumulatively hold millions of Disney shares, the criticisms of the state pension fund executives rang clear with other shareholders.[35] Then, a few weeks later, galvanized by their efforts with Disney, a number of state officials began a campaign urging other shareholders of Safeway, the supermarket chain, to withhold their votes for the current chairman and chief executive officer and two directors.[36] In particular, the California Public Employees' Retirement System (CalPers) said it would withhold its vote for these Safeway board members.[37] The public pension fund officials contend that conflicts of interest in the Safeway boardroom have prevented the directors from representing shareholder interests adequately; these officials also cited the $20 billion drop in total market value over the last five years. Once again, these pension funds cumulatively control millions of Safeway's outstanding shares; for instance, CalPers holds 2.7 million Safeway shares.

The financial woes surrounding both the PBGC and corporations have resulted in a range of cost-cutting efforts, including reducing monthly pension payments and requiring retirees to assume a greater share of their healthcare costs. In late 2003, some former Bethlehem Steel retirees discovered to their dismay that the PBGC would require repayment for some of the benefits promised by Bethlehem Steel. One such retiree in the Baltimore, Maryland area was required to pay back $14,000 from what he had received from the agency; similarly, another retiree found his monthly pension payments slashed from $2,237 to $1,717.[38] In Los Angeles, California, a retiree receiving an AT&T pension was notified in December 2003 that the company-paid health insurance benefits guaranteed to him and his wife were being canceled. In order to receive continued health coverage, he would have to pay $411 a month, an expense that would greatly deplete his $1,457 monthly pension.[39] Even retirees in senior management have not been immune to these pension reductions; a trucking executive who had worked for Consolidated Freightways for 36 years with a pension of $151,000 saw his pension drop by $22,000 and his health insurance costs soar to $9,000. Then, a retiree who had worked for Acme Steel for 31 years with a pension of $22,000 a year was notified that his wife's health insurance had been terminated.[40]

Benefit reductions are a trend sweeping across the country as corporations seek to lower their expenditures by reducing the level of benefits provided to their retirees. In fact, according to a Hewitt Associates study, despite the resurgent stock market in 2003 (compared to the 2000 to 2002 period), more than one third of U.S. companies with a pension plan have indicated in January 2004 that they plan to freeze benefits; 17 percent of the companies surveyed also indicated they will halt benefits to new employees.[41]

In April 2004, President Bush signed legislation (PL 108-218), submitted to him after a laborious debate in Congress, granting companies a two-year break on contributing to their pension plans.[42] (As noted earlier, a number of companies had ceased making these contributions well before the passage of this legislation.) According to this new law, set to expire on December 31, 2005, companies were permitted to base their contributions on a higher future rate of return–a rate linked to the yield of corporate bonds rather than U.S. Treasury bonds. In the lead-up to the legislation, corporations had bemoaned the fact that without the billions of dollars in savings expected from the law, several pension plans would collapse.

In sum, the PBGC and defined benefit corporate pension plans face significant problems in the upcoming years, given the multi-tiered structural problems listed in this section. The long list of underfunded pension plans in these companies, especially in the air transportation and steel sectors, could produce additional losses for both retirees and the PBGC. Hence, the onus is on policymakers to respond to these challenges and seek to mitigate the negative effects of these trends. In this vein, the executive director of the PBGC called on Congress "to make it harder for corporations to dump their obligations on taxpayers" and said his agency "needs a stronger claim on the assets of companies that skip payments."[43]