Retirement Planning Ideas

Playing Roulette With Retirement

by Teresa Heinz Kerry and Jeffrey R. Lewis

(NAPSA)—Pension legislation signed by President Bush in the fall of 2006 may help ensure that workers currently covered by pension agreements with their employers get the checks they were promised—at minimal cost to the American taxpayer. Unfortunately, it does nothing to reverse the larger, more ominous trend: that of employers walking away from traditional "defined-benefit" pensions. Congress and the president have taken steps to resolve the immediate crisis, but the long-term problem of retirement security remains.

Not everyone is upset that defined-benefit pensions are rapidly becoming a mirage. In the corner offices occupied by senior corporate executives, this latest retreat from company loyalty is considered good business—another way to pump up profits. Among middle-class families, the reception will be less joyous: It means a less secure retirement for millions of people.

But for employees, defined-benefits plans have one important advantage: They put most of the burden on the party with the greater resources, stability and expertise—the employer.

Increasingly popular "defined-contribution" plans are different: They shift the burden onto the worker. In the most common form, the 401(k), employees have a certain percentage of their paychecks—usually matched, in part, by the employer—diverted to an investment fund. If the employees contribute generously, get a good match and invest well, they, too, may have a secure retirement.

But defined-contribution plans force employees with no financial experience to make critical long-term decisions that may be beyond their skills.

Defined-contribution plans seemed like a great idea in the roaring '90s, when everybody's portfolio grew at phenomenal rates. But then the bubble burst and portfolios collapsed, proving that decades of retirement planning can be ruined in a few months. Meanwhile, workers with traditional pensions were able to carry on as before, comfortable and secure.

Traditional pension plans do have a fiscal impact on employers: First, forecasting life expectancy and investment returns is hard, so having future benefits imposes risks on employers; second, the law places a significant administrative burden on them as well (but for good reasons); third, the need to fund benefits for early generations of retirees is creating burdens at a time when global competition is rising.

But in the end, the elimination of traditional pension plans is just one more way in which corporations are forcing the risks inherent in a dynamic economy onto the backs of middle-income workers, while insulating senior management from those risks.

But putting retirement planning in the hands of workers with no financial training and staking retirement funds on a game of Wall Street roulette makes retirement look a lot worse for real people. Companies and the federal government should be looking for ways to rationalize the payment of defined-benefit plans, so that it takes into account both the needs of companies—and the need for workers to have a determined income stream.

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