Introduction

Since the late 1970s, there has been a class war over control of trillions of dollars dedicated to retirement plans of all types. On one side stand Wall Street titans and other members of the financial services industry. They seek to control these funds to profit from them directly. On the other side stand working people, the nominal owners of these funds, who are counting on them being available and sufficient to finance their retirement years.

Social Security is the biggest prize in the retirement plan class war. It's no great mystery why Wall Street–related financial interests and their ideological supporters in political parties and think tanks want to privatize Social Security and are waging a long-term class war to do so. In the most recent year, Social Security collected in revenue just short of one trillion dollars and held in reserve an additional 2.9 trillion, for a total of 3.9 trillion dollars.[1] That's 3.9 trillion dollars out of reach of Wall Street profiteers. At the same time, Social Security is the biggest retirement asset held by most working Americans. Losing it to the financial elite would put a severe dent in their retirement standards of living. Wall Street profit taking would lower the benefits they now receive.

If the battle over Social Security is ongoing and yet to be decided, the Wall Street financial elite can already count a significant victory. Since the early 1980s, it has engineered the transformation of most employer-provided retirement plans from traditional pensions to more profitable 401(k)-like savings and stock market investment schemes. In so doing, it has seized control of a large portion of the collective retirement savings of working Americans. According to Ted Benna, a benefits consultant who was one of the original architects of the transformation, the 401(k) "turned the mutual fund industry from a few cottage-sized businesses into financial giants."[2] This development is one of the major causes of what economists refer to as the financialization of the economy.

The most visible battle of the class war over retirement plans has been the attack on the remaining sector of the workforce that still has traditional pensions: public sector workers. Ideological allies of the financial elite have done an excellent job convincing much of the public that these pension plans are a costly burden on taxpayers, overly generous, threaten to bankrupt governments, and reduce funds for needed public services such as education. Republican and a not insignificant number of Democratic politicians continually introduce bills to replace the pensions with 401(k)s. Yet pension plans cost governments less than 401(k)s for the same benefit amount. Most public pension plans are in sound financial shape despite media focus on the few that are not. The campaign against public pensions, using the scary-sounding term *unfunded liabilities*, spotlights the weakest plans as if they were typical, despite the fact that those plans are weak because of past underfunding. Underlying the campaign is the promotion of pension envy, aimed at most private-sector workers, who are now looking forward to an insecure retirement with insufficient 401(k) savings. The message: it is unfair for public workers to have secure retirements when we don't. Instead of arguing that all those who work for wages deserve secure retirements, workers are urged to form a circular firing squad and end all secure pensions.

The termination of collective pension funds would not only end the most favorable form of retirement plans for working people, it would also end a type of power that they have in the class war:

their collective capital. Pension funds such as the California Public Employees Retirement System (Calpers) hold billions of dollars of investment capital. How they decide to invest what can be called labor's capital has a huge impact on corporations. They can use that capital to influence corporate practices that concern labor. They can withdraw investments from companies with unfair labor practices, as has been done.[3]

I come from a family of labor activists. My wife was a union organizer. My daughter is one. I have been an active union member for most of my life. When I was approaching retirement, I discovered that my 401(k)-like plan would come up very much short in terms of providing the income my family and I needed to maintain our standard of living. Like any conscious union member, I suspected that if I had that problem, then very likely so did a lot of my co-workers. I, though, had an advantage over them. I had studied retirement plans as a part of my work position as a researcher and knew that the fault of our plan coming up short lay not so much in anything we had done or not done but in the type of plan itself. I knew that some co-workers had a different type of plan and that they would be fine in retirement. They were paying less than half what we were in contributions, yet would receive over twice the retirement income. If we could only get into their plan, a real pension plan, we too would be fine.

It was a solution that was both deceptively simple and very difficult to accomplish. Yes, changing plans would deliver much higher retirement income. But to change plans required the agreement of our employer, in this case the state of Connecticut since we were state workers. I first worked out a way that would actually save the ever cash-strapped state money if it allowed us to change plans. I went to state officials with the issue. There was some sympathy for our plight but a unanimous consensus that it was quite impossible, probably even illegal, to allow us to change retirement plans. We were irrevocably bound to the plan we were in. I went to union leaders with the issue. They sympathized too but thought it a lost cause. Putting effort into trying to obtain it would be a waste of time and resources. I went to labor lawyers to see if we could sue our way to relief. No, was the common answer. The lawyers, however, did note that there was nothing illegal about what I was proposing. While the state was under no obligation to grant the request, there was nothing that legally prohibited it from doing so. It was a matter of somehow getting our employer to agree to allow us to change plans.

I already knew that they wouldn't accept the proposal to change retirement plans just because it was a good idea. There's a built-in lethargy to large bureaucracies. Once they have a system in place that seems to work, there is a reluctance to change it. I couldn't just ask them to make a change. I had to find some way to *make* them change plans.

I had run up against the classic reason workers join together into unions in the first place. You're not likely to have much success individually confronting an employer. You're much more likely to have success if all of the workers approach the employer as a collective force. Or, as the old labor song goes:

Many stones can form an arch
Singly none singly none.[4]

If I wanted that collective force to back up what I knew, based on my job as a researcher into retirement plans, to be a good idea, I would have to organize it with others who were in agreement.

I set out to do that. The idea caught on quickly among co-workers deeply worried about going off their own fiscal cliffs when they retired. Most doubted we could prevail but were willing to listen and go along just in case. Surprisingly, once we organized, progress came quickly. The unions responded by filing a supporting grievance, the remedy of which would be to allow employees to change retirement plans voluntarily. That led, through twists and turns, to a successful outcome that allowed state employees to change into the much better state employee pension plan. The underlying lesson: nothing happened until we got organized.

I wrote about that struggle in *Social Insecurity: 401(k)s and the Retirement Crisis*.[5]

What struck me was how little many union officers, as well as members, knew about retirement plans, despite their importance. Granted, this was the case where I was. There are other union situations where officers and members are keenly aware of the issues involved with their plans. You can see that in the resistance that is often provoked when employers try to cut back or eliminate pension plans. Nevertheless, I suspect that there is much more lack of awareness by employees of the stakes involved in their retirement plans.

When I look at my history, I have to admit that I fell into the lack of awareness category for the major part of my working life, especially when I was young. Like death, retirement is a subject that most young people would prefer not to contemplate. In their eyes, retirement is an unpleasant subject, a step before death, the ultimate unpleasant inevitability. Thinking about retirement when young is thinking about the depressing reality that one day you will no longer be young.

When you are young, life's highway ahead looks very long, stretching into infinity. When you are old, the traveled road looks much shorter. I am now in my seventies and can remember events of my teen years like they happened yesterday. When I was a teenager, I often thought about the millennial year of 2000 as being in the very distant future. It seemed unimaginable to me that I would be fifty-six at the time since I was born in 1944, making me a war baby, just before the famous boomers. I could not imagine reaching that millennial year. Time crept slowly. But 2000 has come and gone and the years since seem to whip by.

When you are young, time is longer in your perception. If you are twenty years old, ten years make up half of the only reality you have directly experienced. When you are seventy, it makes up only one-seventh of your life. The longer you live, the shorter the perceived reality of each year.

At age twenty, retirement at age sixty-five is forty-five years into the distant future. Forty-five years is a long time. It is an even longer time if you are young. But the chronological years do inevitably go by; they seem to go by slowly at first but then they are gone in a rush. At five years before retirement, you realize that it is coming up fast, very fast. You cannot avoid thinking about it now. Worse, if you have not participated in a good retirement plan, there will be little that you can do to make up for lost time.

This is all an argument for learning about retirement plans as early as possible. It's a hard sell because retirement for many is an exceptionally dull subject. It's for older people. You are young or at least not old. It's a reminder that one day you will be a lot closer to death, which is a real bummer, an unpleasant subject. There are a thousand reasons not to think about it. It's easy to put off, like writing a will.

Retirement is the last act before the end of the show, death. And you're still in the first acts. Like in theater, you're dealing with earlier elements of the drama of your life—leaving the home you grew up in, finding a mate or not, having children or not, getting a job. The list goes on and retirement planning is not on it.

I believe that humans are a problem-solving species. Solving small and large problems consumes our lives. What will we wear today? What and how will we eat? How will we get to work? Issues to be solved always fill workdays. Having problems is a normal part of life. It's only when we are dead that we do not have problems.

Some problems have immediacy; they stare us in the face and must be dealt with now. Your child has cut herself badly while playing. Other problems don't or at least don't seem to require immediate action. Retirement planning is like that the younger you are. We can store the problem in a remote region of the brain for later attention.

But the problem of putting it off, kicking the can down the road, is that some things are a lot easier and less painful to do earlier than later. If your retirement security depends on how much you've saved, the more you put away beforehand, the less you will have to set aside later. While that may seem obvious, there is a part that is not so obvious. Retirement savings have two parts: how much of it grows as a result of new contributions and how much of it grows as a result of investment gains. At a certain point, the latter becomes more substantial than the former. Savers don't just have to put in contributions, they also have to leave in the money there for a long time to render maximum returns and assure retirement security. It is challenging to make up for lost ground later in life. There are inherent problems with this approach that I will discuss. But if you're stuck with it, you should be aware of the need to start contributing early and not put it off.

At the same time, no one should have to spend their early decades obsessing about their retirement years. Other problems require attention. Nevertheless, retirement can't be ignored entirely. At least a few decisions must be made, and the more knowledgeably those decisions are made, the better. That's why this book is here.

People reading this so far who have 401(k)s may believe either (a) I was completely wrong, and their experiences are or will be different, or (b) they are doomed, and the situation is hopeless. It is not my purpose to promote either conclusion. I don't agree with (a) or I wouldn't be a critic of 401(k)s. But at the same time, I am not a futilist, the (b) option.

Most people in the United States now, if they have an employer-provided retirement plan, are in a 401(k)-type plan. Their deficiencies require a national reckoning. To have that reckoning, one that leads to reforms to rectify them, will require an understanding by their participants of what is wrong with them. Union and rank-and-file activists will need to understand the nature of the beast and what they are up against.

Retirement plans are complicated. That is one of the main reasons many participants prefer to avoid thinking about them, hoping for the best. They all have different features, even within the broad types of traditional pensions and individual retirement savings and investment plans like 401(k)s. They are complicated because finance in and of itself is complicated. They are complicated because they require information that is not always readily available, such as how long one is likely to live in the retirement years. But just because something can be complicated or opaque does not mean it cannot be understood.

In the course of my professional work and labor activism, I have counseled hundreds of people about their retirement plans, and I have spoken to many more about labor struggles regarding them. A common observation is that they don't know as much about those plans as they should. A union leader in charge of negotiating a retirement benefit told me with a sigh that he was an English major in college, hardly preparation for what he had to deal with now. All the retirement experts, he complained, seem to be on the other side. He very much wanted to do the right thing for his members, and he understood the severe consequences if management cut retirement benefits. He wished he knew more to defend member interests adequately.

In our Connecticut struggle, the state employee unions formed a coalition to bargain retirement and other benefits. Representing the coalition in negotiations was an exceptionally skilled lawyer who was a genuine expert on retirement plans. We were lucky to have him. But that expertise did not spread through the ranks of the labor officials. When members had questions, even basic ones, the officials were ill-equipped to answer them. At one point, I commented to a pension attorney that I didn't think there were more than twenty-five people in the state who understood how the state employee pension plan worked. He agreed and then added that there were a lot more people who thought they did, especially politicians who were proposing reforms to it. Conversations I had with several journalists who had been writing about it confirmed this lack of general understanding. In one case, I spent an hour in a coffee shop explaining to a journalist how the pension plan worked. She was very appreciative, and her reporting on it became much better.

It's easy to see how union officials and reporters would not necessarily know much about retirement plans. They have many other concerns. Union officials confront a wide variety of problems. Reporters go from story to story. When a retirement plan problem or issue presents itself, they have to deal with it even if they do not have the full understanding to do so. Members of retirement plans, of course, should also know much more than they likely do. When I was counseling employees about their plan options, I discovered just how little most people knew. Those baffled by their retirement plans included heads of economics departments and other economists whom the *New York Times* quoted as experts knowing something.

It's also true that retirement plans can be very complicated. But here it's necessary to distinguish between fundamental plan principles and the often opaque features that managers have added. Underneath a maze of specifics, such as different rates of benefit accrual, will be a straightforward structure. There are other types of complications that require the expertise of lawyers and actuaries to decipher. But most of what needs to be understood does not require technical, legal, or mathematical specialization. It is accessible to plan members, labor organizers and officials, and others who are called upon from time to time to assess retirement plans.

With respect to knowledge of the basics of retirement plans and those areas that require specialized expertise, I aim at the former in this book. Its goal is to provide the basics of what labor people should know, including employees and their union representatives, if they have them. This is somewhat like health advice books. There is a distinction between what everyone should know to take care of essential health needs and when to call the doctor. Here, it is the distinction between what you should know and when you need to call a technical, legal, or other type of expert.

Knowing the nuts and bolts of retirement plans will allow employees to critically assess changes to plans that employers advocate or make. Employers always present these changes as being in employees' interests, but unless you are naive enough to believe that employers without exception have the best interests of their employees in mind rather than their own, it is best to be equipped to assess them critically.

This book is not a neutral account. It will evaluate types of plans and features in terms of which are better and which are worse for working people. Also, I will, out of necessity, address national issues, since, ultimately, retirement is a national issue. From a labor perspective, there are national as well as workplace reforms needed to resolve the country's chronic retirement problems.

The purpose of this book is broadly educational. For readers, to help them navigate through the complicated and often impenetrable world of retirement plans so that they will be in a position to defend themselves and their interests. For employees, it will be strategic information for charting their strategies. For union organizers, it will be information and understandings that they can use to navigate the retirement benefit provision of contracts. It will also be information that they can pass on to members in terms of labor education and as responses to their questions and concerns.

In this book I will share what I have learned from years of study and retirement activism. I will present the material in as understandable a manner as possible. In many cases, it took me a great deal of time to understand an issue because no one else had explained it well, perhaps because they did not themselves understand it. Writing can be annoying when you suspect the writer is trying to hide a lack of understanding by not clearly explaining a critical concept or idea. I hope not to be guilty of that type of incomplete or lazy writing in the pages to come. I have made sure that I understand what I am writing about, so that I can explain it well.