'Fund' amentals

Volume 16, Issue 1 July 2009

# Your retirement plan - are YOU on track to retire?

November 2006 was the 25th anniversary of 401(k) Plans. Millions of Americans have trillions of dollars invested in the 401(k) Plans sponsored by their employers and unions. But, are they on track to retire? Are these retirement plans going to carry the baby boomers into a financially secure retirement? Many boomers had visions of retiring as they approached age 55 or 60. However, with the need for healthcare coverage and the current recession crushing 401(k) plan balances, boomers are putting off retirement.

The Bureau of Labor Statistics survey from March 2008 shows that 43% of workers (non-government) have a defined contribution retirement plan – like a 401(k) plan – while only 20% have a defined benefit pension plan. Fortunately for Union Members, the numbers are much better. 67% of union workers have a defined benefit pension plan while only 15% of non-union workers have a DB plan. 42% of union workers and 43% of non-union workers have defined contribution plans like 401(k) plans.

Why does all this matter? For all those workers who have defined contribution/401(k) plans, the recession and the severe drop in the stock market has left millions of baby boomers with significantly lower account balances and only a few years to try to make up the losses. For those with defined benefit pensions, like the IUE-CWA Pension Fund, benefits already earned are guaranteed. Unfortunately, the current economic market and unemployment, many defined benefit plans are considering options to maintain themselves, including cutting future benefit accruals or freezing benefits altogether.

Most folks probably did not realize 25 years ago when legislation was passed which created 401(k) Plans that it would serve to replace their traditional defined benefit pension plans, placing the burden of saving for retirement fully on their shoulders. But, that's exactly what happened. The current economic decline has made matters considerably worse.

While 401(k) plans are great ways to save money for retirement with pre-tax savings and using (in most plans, most of the time) inexpensive mutual fund investments monitored by professionals, such plans were never designed to be the single source of retirement income for retirees. The 401(k) Plan is a great complement to a traditional defined benefit plan. Unfortunately however, Congress has continually passed legislation to encourage and bankruptcy courts have allowed companies to terminate their pension obligations and force workers to save for their retirement on their own in 401(k) plans and IRAs. The recent legislation passed was the Pension Protection Act of 2006 (PPA). However, instead of protecting traditional pensions, it is encouraging many companies to terminate or freeze them.

Late in 2006, shortly after the 401(k) Plan's 25th anniversary, Dr. Thomas J. Mackell, Jr, the President of the Association of Benefit Administrators, Inc. commented in his column that "The passage of this (401(k)) legislation that created the 401(k) plan was one of the first significant steps that led to the shifting of retirement and longevity risk from the shoulders of the institution **onto the shoulders of the individual.**" He also noted that while attending a conference on benefit plans, he listened to a presentation from "a well known and highly respected actuary" who was upset because, "in his judgment, in the not-too-distant future, **he envisions hordes of elderly people who are without adequate financial resources** who will be forced to live under bridges. It sounded reminiscent of and brought up painful images of the shanty towns and destitute hobo communities that were scattered across America after the Crash on Wall Street and during the aftermath that followed in the Great Depression."

His comments make the situation sound bleak - three years ago in 2006 – and the situation is much worse today, in the middle of 2009. *401(k) Plans ARE a great retirement savings tool when used as part of the retirement equation*. The main problem is: **WORKERS DO NOT SAVE ENOUGH**. First, many workers, especially those in lower income jobs, are working hard to pay their bills and take care of their children without much left over for savings. Secondly, even those who know saving is important and try to put away as much as they can often miscalculate how much they actually need to be saving for retirement. How much is enough? And third, workers have to rely on their own understanding of the stock market, mutual funds, their time horizon, and goals to make investment decisions. While there are many out there who have a great understanding of all these components, most do not. This is not something taught in school. So, workers make investment choices based on what their co-workers or family members do… which may not get them to their goals.

You will need 80% to 100% of your current income after you retire. You will continue to have bills. You will likely be visiting the doctor and pharmacist more often. You may even want to travel and entertain your grandchildren. Also, you will likely live 15 to 25 years beyond retirement. This is much longer than folks used to expect to live. If you do not have a traditional defined benefit plan to pay you a benefit in retirement, you must make up the difference that Social Security does not pay. Currently, Social Security only fills in about 34% of your pre-retirement income. Will you have enough saved in your 401(k) Plan to fill the 66% gap? Do you have a defined benefit plan that will help but has recently cut future benefit accruals? We all need to save more, invest more carefully, and plan to work longer.

If you have questions about your IUE-CWA Pension Fund or 401(k) Plan, contact the Fund Office at 973-893-0333 or Mike Lostutter, Director at mike@iuepension.org.

*Dr. Thomas J. Mackell, Jr's column and information about the Association of Benefit Administrators, Inc. can be found on their website at: http://www.assocbenadmin.com/.*

## Correction from the last *'Fund'amentals*: How your benefits will change

In the last *'Fund'amentals* issue, we gave an example of how participants' benefit would be affected by the 50% reduction in future accruals of benefits. We made an error in our math. At the bottom of the example, it said "(if you had 23 years of service all at the $40 benefit rate, your benefit would have been $920, instead of $824). We overstated the cut in future accruals. The example actually shows 22 years of service, not 23. We have corrected this below:

As an example the pension benefit with service at ABC Industries will be made up of several segments:

1990 – 2009 = 19 years of service at $40
2009 – 2010 = 1 year of service at $20
2010 – 2011 = 1 year of service at $22 (with a negotiated increase)
2011 – 2012 = 1 year of service at $22 (without another negotiated increase)

| | | | |
|---|---|---|---|
| Total benefit = | 19 years of service | x $40 | = $ 760 |
| | 1 year of service | x $20 | = $ 20 |
| | 1 year of service | x $22 | = $ 22 |
| | 1 year of service | x $22 | = $ 22 |
| | Total | | = $ 824 |

(if you had **22 years of service all at the $40 benefit rate, your benefit would have been $880**, instead of $824).

The Fund Office is here to serve you. If you have questions or concerns about any of these changes in your Pension Fund, please feel free to contact us. The best way to reach us is via email. You can reach us at 973-893-0333, at mike@iuepension.org, at 1460 Broad Street, Bloomfield, NJ 07003, and at www.iuepension.org.

IUE-CWA Multi-Employer Pension Fund
1460 Broad Street, Bloomfield, NJ 07003
phone 973-893-0333 fax 973-893-8225
www.iuepension.org