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Taking a Serious Look at the Retirement Crisis in America: What can we do to expand defined benefit pension plans for workers

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My name is Rachel Greszler. I am a senior research fellow at The Heritage Foundation. The views I express in this testimony are my own and should not be construed as representing any official position of The Heritage Foundation.

In my testimony today, I would like to make three main points:

First, older Americans; financial well-being is strong by historic standards, and older generations are significantly better off financially than younger generations. The shift from defined benefit pension plans to defined contribution benefit plans has been accompanied by increases in workers' retirement savings participation and in retirees' incomes. Current trends do not indicate either that younger Americans are unprepared for retirement or that it makes sense for them, as a whole, to increase their savings and forgo current consumption in exchange for higher future consumption. Policymakers should make it simpler and easier for Americans to save for all types of expected and unexpected life events throughout their lifetimes.

Second, Social Security is in crisis as the program will be insolvent in just nine years, and every single retiree will be subject to 23 percent benefit cuts, averaging $5,300 per retiree. Social Security has veered far beyond its original vision and consequently provides a raw deal for younger generations. Maintaining the program or increasing benefits will require enormous tax increases that will reduce economic growth and leave households with significantly lower incomes. Every year that policymakers delay action means trillions of dollars more in either benefit cuts or tax increases. Policymakers should act immediately to preserve Social Security for those who need it most and to improve the program for current workers and future generations.

Third, defined benefit multiemployer and state and local pension funds are in disastrous shape. Taxpayers have already been forced to bail out select private multiemployer or union pension plans, and Congress did absolutely nothing to address the problems remaining for the overwhelming majority of union pension plans that are on track to provide roughly half of what they promised to provide for workers and retirees. Without congressional action, retirees and taxpayers are at risk of more than $700 billion in additional pension losses or taxpayer costs. Comparisons should never be made between defined benefit plans that would be bankrupt without taxpayer funds and defined contribution plans that have not received taxpayer bailouts.

Retirement Savings, Income, and Well-Being Are Near Historic Highs

Contrary to the narrative accompanying this hearing and frequent media headlines, Americans do not face a retirement crisis—at least not one attributable to the expansion of defined contribution plans and the decline in defined benefit plans. Retirees' incomes, households' total retirement savings, Americans' participation in retirement savings plans, and retirees' reported financial well-being are all high by historic standards.

Retirement Income. According to the Federal Reserve, the real pre-tax income of workers ages 65 and older—including Social Security, private, and government retirement savings—has increased 30 percent after inflation since 1988.[1]

A goal for retirement is to maintain a standard of living similar to the standard enjoyed during one's working years. For a number of reasons, income needs in retirement tend to be lower than during working years (for example, individuals have fewer work-related expenses, eat out less, and are more likely to have paid off a mortgage), and financial planners therefore commonly recommend a target replacement rate of 70 percent of pre-retirement income.

A 2017 study looked at the incomes of individuals over 12 years (1999 to 2010), following them from their years before and then into retirement. Importantly, this study used IRS data.[2] The authors found that most individuals had the same or higher after-tax, or "spendable," income after claiming Social Security benefits.[3] Somewhat surprisingly, the authors found that individuals with the lowest pre-retirement incomes had the highest post-retirement income replacement rates, with the lowest quintile of workers' post-retirement after-tax income equaling 123 percent of their pre-retirement after-tax income compared to a ratio of 75 percent among the top 5 percent of earners.

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[1] This dataset includes annual data from 1988 through 2022. U.S. Bureau of Labor Statistics, "Income Before Taxes: Social Security, Private & Government Retirement by Age: Age 65 or over [CXURETIRINCLB0407M]," retrieved from FRED, Federal Reserve Bank of St. Louis, https://fred.stlouisfed.org/series/CXURETIRINCLB0407M (accessed February 24, 2024).

[2] See section below on survey vs. administrative income data.

[3] Peter J. Brady, Steven Bass, Jessica Holland and Kevin Pierce, "Using Panel Tax Data to Examine the Transition to Retirement," March 6, 2017, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2928375&download=yes (accessed February 24, 2024).

Net Income Before and After Claiming Social Security			
	1 year before claiming	3 years after claiming	Ratio post-retirement to pre-retirement income
bottom 20 percent	$20,943	$25,719	123%
second quintile	$34,537	$33,312	96%
middle quintile	$47,764	$44,457	93%
fourth quintile	$61,726	$54,132	88%
80 to 95th percentile	$93,568	$77,157	82%
top 5 percent	$169,623	$126,881	75%

Net income includes labor income, social security benefits, and retirement income minus work-related payroll and federal income taxes

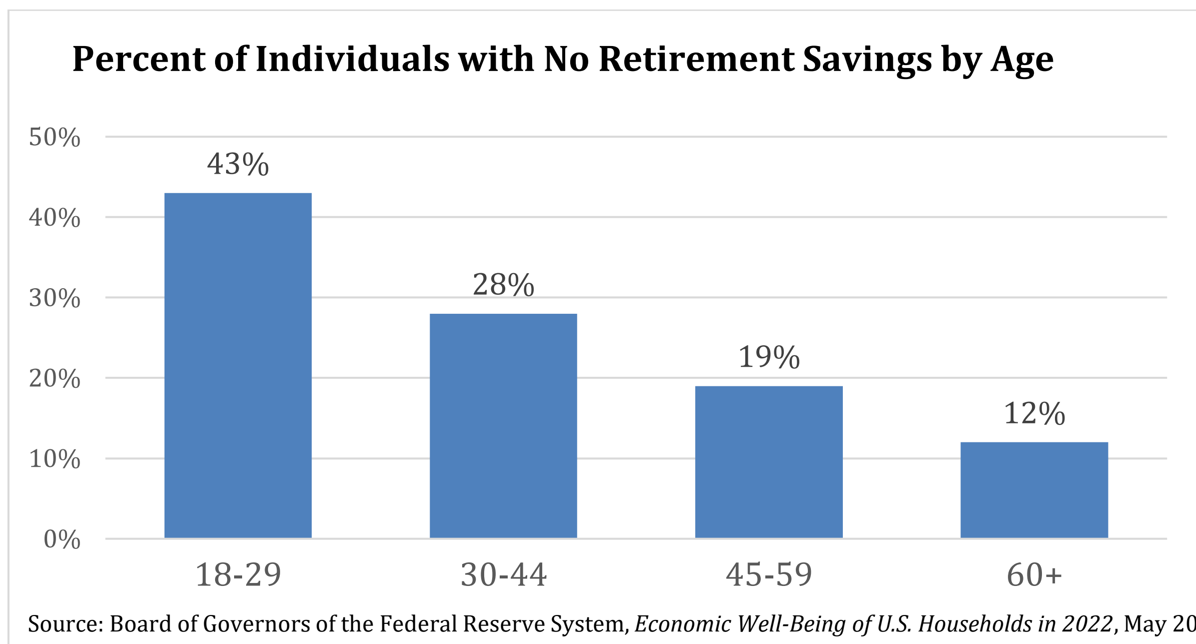
Source: Peter J. Brady, Steven Bass, Jessica Holland, and Kevin Pierce, "Using Panel Tax Data to Examine the Transition to Retirement," 2017.

Retirement Savings Wealth. Current retirement savings are also historically high. As of the second quarter of 2023, household and nonprofit organizations held $41.5 trillion in retirement assets. This is a 331 percent increase in the inflation-adjusted value of retirement assets since 1988 (when that dataset begins).[4]

Retirement Savings Participation. The biggest factor affecting individuals' probability of having retirement savings is their age. According to Federal Reserve survey data, 43 percent of individuals ages 18–29 report having no retirement savings compared to 28 percent among 30-year-olds to 44-year-olds, 19 percent among 45-year-olds to 59-year-olds, and only 12 percent among individuals ages 60 and older.[5]

[4] Data compare the second quarter of 1988 to the second quarter of 2023. Board of Governors of the Federal Reserve System (US), "Households and Nonprofit Organizations; Retirement Assets, Level [BOGZ1FL153050015Q]," retrieved from FRED, Federal Reserve Bank of St. Louis, https://fred.stlouisfed.org/series/BOGZ1FL153050015Q (accessed February 24, 2024).

[5] Board of Governors of the Federal Reserve System, *Economic Well-Being of U.S. Households in 2022*, May 2023, https://www.federalreserve.gov/publications/files/2022-report-economic-well-being-us-households-202305.pdf (accessed February 24, 2024).



Across all non-retired individuals in 2022, more than half—54 percent—reported having a defined contribution retirement account, 47 percent reported having savings not in a retirement account, 20 percent reported having a defined benefit pension, and 28 percent reported having no retirement savings.[6] Each of these statistics represents an improvement from 2013 (the first year of the survey), in which 44 percent of respondents reported having a defined contribution retirement account, 23 percent reported having retirement savings in a non-retirement account, 18 percent reported having a defined benefit pension, and 31 percent reported having no retirement savings.[7]

The 2017 study referenced above, which used IRS tax data, looked at older individuals and indicates that nearly 90 percent of workers entering into retirement had retirement savings. The study found that among individuals newly claiming Social Security benefits, 81 percent (either through themselves or a spouse) had income from employer-sponsored retirement plans, annuities, or individual retirement accounts (IRAs), and another 8 percent filled out forms indicating retirement account or IRA ownership.[8]

Poverty and Financial Well-Being. Official poverty rates among older Americans (ages 65 and higher)—both historically and compared to the rest of the population—do not indicate a retirement crisis. Poverty rates among older Americans reached near-record lows of 8.9 percent in 2019 and 2020 before jumping up to a nearly 20-year high of 10.3 percent in 2021 and 10.2 percent in 2022.[9] This recent jump is likely attributable in part to the steep increase in inflation and sharp decline in the stock market through 2022.

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[6] Ibid.

[7] Ibid.

[8] Brady et al., "Using Panel Tax Data to Examine the Transition to Retirement."

[9] U.S. Department of Commerce, U.S. Census Bureau, "Historical Poverty Tables: People and Families—1959 to 2022," page last revised September 12, 2023, https://www.census.gov/data/tables/time-series/demo/income-poverty/historical-poverty-people.html (accessed February 24, 2024).

Prior to the early 1990s, older Americans experienced higher rates of poverty than working age Americans (ages 18 to 64), but since 1993, older Americans have experienced poverty rates equal to or lower than the poverty rates experienced by working-age Americans in every year except one. Moreover, the poverty rate among older Americans has averaged half of the poverty rate among children since 1993.

The government's official poverty measure is deeply flawed, however.[10] Among other problems, it fails to include the overwhelming majority of welfare benefits that aim to reduce poverty.

A self-assessed metric of general financial well-being comes from the Federal Reserve's Survey of Household Economics and Decisionmaking, which asks the question: "How well are you managing financially?" Older Americans report significant improvement in their financial well-being over the past 10 years. The percentage of respondents ages 65 and older who say they are "finding it hard to get by" or "just getting by" fell by half from 34.7 percent in 2013 to 17.6 percent in 2022.[11] Meanwhile, the percentage of respondents saying they are "doing okay," or "living comfortably" increased by 18 percentage points from 64.5 percent in 2013 to 82.5 percent in 2022.[12]

"Overall, which one of the following best describes how well you are managing financially?"

	Finding it hard to get by	Just getting by	Doing okay	Living comfortably
2013	11.2%	23.5%	38.2%	26.3%
2014	12.8%	25.0%	37.5%	23.9%
2015	10.6%	24.0%	40.8%	24.5%
2016	9.4%	22.8%	39.6%	28.2%
2017	7.2%	19.2%	39.6%	33.9%
2018	7.4%	19.5%	40.1%	33.0%
2019	6.3%	17.6%	39.5%	36.5%
2020	6.3%	16.4%	39.6%	37.6%
2021	5.4%	15.3%	38.2%	41.1%
2022	4.2%	13.4%	38.2%	44.3%

Source: Federal Reserve Board, Survey of Household Economics and Decisionmaking, 2013-2022.

[10] Rea S. Hederman, Jr., "A Poor Way to Measure Poverty," Heritage Foundation *Commentary*, August 31, 2006, https://www.heritage.org/poverty-and-inequality/commentary/poor-way-measure-poverty.

[11] Board of Governors of the Federal Reserve System, "Survey of Household Economics and Decisionmaking, https://www.federalreserve.gov/consumerscommunities/shed_data.htm (accessed February 24, 2024). Thank you to Andrew Biggs of the American Enterprise Institute for providing me with already-compiled historical and age-based data.

[12] Ibid.

Comparing responses across age groups, financial well-being improves across every single age group, with the oldest Americans reporting the greatest financial well-being and the least financial struggles. Considering that addressing shortfalls in retirement income almost certainly requires imposing increased burdens on younger generations through higher savings, higher taxes, or increased debt, forced redistribution of money from periods in people's lives when they are less secure to when they are more secure, or from generations with lower financial well-being to those with higher financial well-being, is neither helpful nor fair.

"Overall, which one of the following best describes how well you are managing financially?"

	Finding it hard to get by	Just getting by	Doing okay	Living comfortably
18-24	8.5%	23.0%	44.1%	24.4%
25-34	9.9%	21.0%	41.2%	27.9%
35-44	9.5%	20.7%	37.2%	32.5%
45-54	7.7%	21.6%	39.5%	31.2%
55-64	7.1%	19.2%	38.8%	34.9%
65-74	4.4%	13.8%	39.7%	42.2%
75+	3.8%	12.7%	35.3%	48.3%

Source: Federal Reserve Board, Survey of Household Economics and Decisionmaking, 2022.

Differences in Retirement Savings and Income by Race and Ethnicity. The Federal Reserve economic well-being reports note that there are differences across races in the retirement savings of non-retired individuals, with black and Hispanic individuals being less likely to have retirement savings than white and Asian individuals. Part of this disparity is due to the fact that black and Hispanic individuals are younger, on average, than white or Asian individuals.

In a 2022 study, Andrew Biggs of the American Enterprise Institute examined retirement preparation by race and ethnicity.[13] He found that black and Hispanic workers have lower average earnings and are less likely than white workers to have defined contribution or defined benefit retirement accounts. However, differences in financial well-being during retirement are not as large as the income and retirement account data would indicate because Social Security replaces a larger share of lower-income workers' earnings.

Taking all retirement income into account, Biggs's analysis estimates retirement income replacement rates for 70-year-olds, including all sources of retirement income. For the 1936–1945 birth cohort, median retirement income replacement rates are 111 percent for white individuals, 102 percent for black individuals, and 98 percent for Hispanic individuals. Biggs notes that financial planners commonly recommend a target 70 percent replacement rate. He estimates that among the

[13] Andrew G. Biggs, "Retirement Preparation: Differences by Race and Ethnicity," Retirement Income Institute *Original Research* No. 007-2022, April, 2022, https://www.protectedincome.org/wp-content/uploads/2022/05/RP-07-Biggs_r1.pdf (accessed February 24, 2024).

1936 to 1945 birth cohort, 26 percent of white individuals, 29 percent of black individuals, and 34 percent of Hispanic individuals fall below a 75 percent retirement income replacement rate.

Biggs concludes that "despite significantly lower retirement incomes, most Black and Hispanic households do not appear to be saving inadequately for retirement, given their level of lifetime earnings and the progressivity of the Social Security benefit structure."[14] Biggs also notes that most households of all races are achieving higher retirement replacement rates than financial planners recommend and that trying to force higher retirement savings during working years could leave individuals worse off during their working years than in their retirement.

As noted below in the section on Social Security, Black individuals and individuals with low incomes have significantly shorter life expectancies and therefore often receive a proportionately worse deal from defined benefit pensions and Social Security.

Women's Retirement Income and Survey vs. Administrative Income Data. The source of data on retirement savings is extremely important to the accuracy of the data. Survey-based data that ask Americans to report their total income are not as accurate as administrative data, such as IRS tax data. In part, that is because the way survey-based questions are asked can lead respondents to include significant sources of income. For example, when asked about their monthly retirement income, individuals with defined benefit pensions and Social Security benefit checks will automatically include those income amounts, but individuals with 401(k) and IRA accounts who withdraw money on an annual or as-needed basis may not report any monthly income from those sources. Moreover, because inaccurately reporting income on tax returns can lead to financial penalties and even jail time while inaccurately reporting data on a survey has no consequences, individuals are more likely to report their income accurately when filing taxes than when answering a survey.

When relying exclusively on survey-based data, it appears that the gains women have made in labor force participation, education, and earnings over the past 75 years have not translated into a significant increase in their retirement incomes. However, those survey data do not accurately capture income that comes from defined contribution retirement accounts.[15] Using a ground-breaking methodology of linking survey and administrative data, economists Adam Bee and Joshua Mitchell found that women's median retirement incomes were 45 percent higher than survey data would indicate.[16] Moreover, while survey data showed little gain in women's retirement incomes over the past 25 years, the linked administrative data revealed a 58 percent increase in women's retirement incomes.

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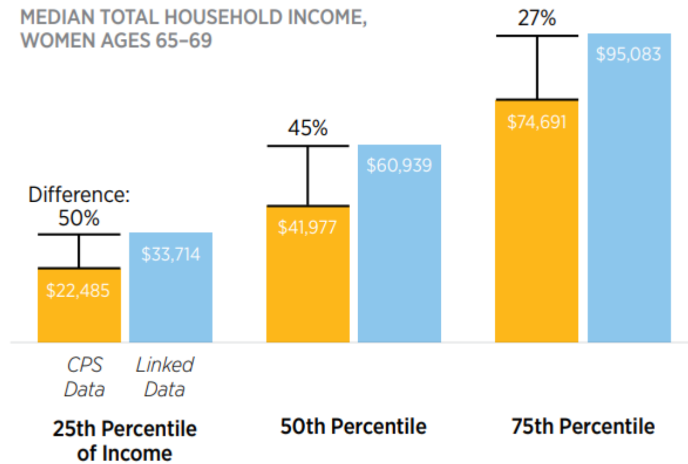
[14] Ibid.

[15] Rachel Greszler, "Survey Data Wrong: Understate Economic Gains of Older Women," The Heritage Foundation *Backgrounder* No. 3226, June 29, 2017, https://www.heritage.org/sites/default/files/2017-06/BG3226.pdf.

[16] C. Adam Bee and Joshua Mitchell, "The Hidden Resources of Women Working Longer: Evidence from Linked Survey-Administrative Data," National Bureau of Economic Research *Working Paper* No. 22970, December 2016, https://www.nber.org/system/files/working_papers/w22970/w22970.pdf (accessed February 24, 2024).

CHART 2

Linked Administrative Data Depict Higher Incomes for Older Women than CPS Data



SOURCE: C. Adam Bee and Joshua Mitchell, "The Hidden Resources of Women Working Longer: Evidence From Linked Survey-Administrative Data," National Bureau of Economic Research *Working Paper* No. 22970, December 2016, www.nber.org/papers/w22970 (accessed March 28, 2017).

Benefits and Drawbacks of Americans' Various Retirement Savings Vehicles

Americans' retirement savings comes in multiple forms, including employer-sponsored defined contribution 401(k)s and defined benefit pensions, Social Security, personal retirement savings like IRAs or private annuities, and wealth in the form of assets like a home or a personal investment account. The portion of retirement income that comes from these different sources varies significantly across individuals and families based on their income levels and life circumstances. In general, lower-income earners tend to receive a higher portion of their retirement income from Social Security both because Social Security replaces a higher portion of lower-earners' income and because lower-income earners tend to have less income from other savings sources.

A benefit of Social Security and defined benefit pensions or privately purchased annuities is that they aim to provide a guaranteed monthly income for life (putting the investment risk on a company or the government and thus taxpayers), which protects against the risk of outliving one's savings. The downside of pensions or annuities is that individuals typically have no control over the investment of their assets, and pensions and annuities provide limited or no ability to pass savings on to family members if an individual dies relatively early.

One benefit of defined contribution plans is that workers can control how their money is invested: They may choose specific investments or a single target retirement-date fund. They also typically have access to financial advice. Two other benefits include personal ownership so that savings can be passed on to heirs and constant knowledge of how much money is in one's account with the ability to project how much that will provide in retirement. The primary consequence of defined contribution plans is that they do not guarantee a specific amount of income in retirement (individuals bear the investment risk), and individuals could outlive their savings.

What History Says About Who Is Best Equipped to Control Workers' Retirements

The notion that employers or the government are better equipped to control individual workers' retirement plans than are workers themselves is a fundamental component of defined benefit plans. Inherent conflicts of interest in these plans when not legally bound by sound financial practices and significantly improved access to comprehensive investment services in personally-owned accounts suggest that individuals are best equipped to own and control their retirement savings.

The incentive for individual savers to set aside what they will need in retirement is straightforward: If they do not save enough, it is their own financial future that is on the line. The officials and politicians responsible for managing union-run and public pension plans, however, have an incentive to put their own shortsighted interests above the long-term interests of pension beneficiaries. Since plan managers are often long gone before the promises they make come due, they can gain votes and job security by making unfunded pension promises, playing politics with pension investments, and leaving future plan managers, politicians, and taxpayers to deal with the consequences.

When defined benefit pensions first began in the late 19th century, the government had an interest in encouraging employment-based defined benefit plans as a way to reduce poverty and thus the cost of anti-poverty government programs. Today, the federal government has its own defined benefit pension system through Social Security with $22.4 trillion in unfunded promises.

Moreover, when defined benefit pensions were created, it made some sense for employers to manage workers' savings. This was back when telephone lines had just been installed on the floor of the New York Stock Exchange.[17] Obtaining investment information was not simple, and investment transactions were not easy. The average saver therefore lacked the resources and information necessary to maximize his or her retirement savings, so it made sense for employers to use their competitive advantage, through pooled resources, to set up defined benefit retirement savings plans for their employees.

That is not the case today. Most workers have their own smartphones, complete with any number of financial and investment apps that provide a wealth of information and the ability to purchase stocks and bonds from almost anywhere in the world with the tap of a finger. This has transformed the ability of everyday Americans to manage their own retirement savings.

Even setting aside the potential conflicts of interest and political manipulation of defined benefit pension plans, employers and governments rarely manage other people's money more prudently than those people can manage it themselves. The multitrillion-dollar shortfall in defined benefit pension systems across the United States is evidence of this.

[17] Public Broadcasting Service, "The Crash of 1929 | Timeline: A Selected Wall Street Chronology," *American Experience*, http://www.pbs.org/wgbh/americanexperience/features/timeline/crash/ (accessed February 24, 2024).

Policymakers Can Make Saving Easier and More Accessible Throughout Workers' Lives

The easiest and most economical way to save for retirement is through an employer-sponsored account. As more Americans shift between jobs and pursue independent work, policymakers could increase access to retirement savings by enabling association-style retirement savings plans that would allow workers to save in the same retirement account throughout their lifetimes. This would be particularly helpful to independent workers who often face lower limits on retirement contributions through IRAs. Private investment companies could offer these accounts, which would have the same tax treatment and contribution limits as employer-provided 401(k) accounts.

While retirement savings is important, Americans need savings for all types of planned and unplanned events that occur throughout their lifetimes. Those events could include planned events like college, buying a home, or having a baby and paying for childcare. They could also include unplanned events like a major car repair, a broken hot water heater, or an unexpected medical expense. The current, disjointed savings accounts structure in the U.S. makes it harder for Americans to save. And the penalties applied on early withdrawals often prevent lower-income workers from saving, out of fear that their money will be locked up or that they will have to pay a penalty if they need to it out early. Policymakers should enact Universal Savings Accounts, which would allow workers to save in one simple savings account that they could withdraw from without penalty for any expected or unexpected event throughout their lifetimes. Universal savings accounts have been successful at increasing savings, particularly among lower-income earners, in the U.K, South Africa, and Canada.[18]

Social Security, Union Pensions, and Public-Sector Pensions Are in Crisis

While American's retirement incomes are faring well and increases in defined contribution 401(k) and other private retirement savings provide significant retirement security, there is a crisis among government-run and union-run defined benefit pensions.

Single-employer pensions must abide by strict funding rules and owners of those companies have the incentive to adequately fund their pension plans because they will suffer the consequences if their pensions, and therefore their companies fail. Consequently, single-employer pensions are generally well-funded and provide a secure vehicle for retirement income. Multiemployer or union pensions and government pensions face lax or no funding rules and perverse economic interests. Union leaders and politicians can benefit from delivering higher pension benefits without requiring higher contributions to fund those benefits, and they suffer no personal consequences for making broken promises; instead, the liabilities fall on taxpayers, workers, and retirees.

A result of the perverse incentives of defined benefit public-sector and union pensions is that virtually every single one is broken: Social Security can provide only about 75 percent of its scheduled benefits, multiemployer pensions set aside enough to pay only 40 percent of promised benefits, and state and local government pensions are only about 35 to 40 percent funded.

[18]Adam Michel, "Universal Savings Accounts Can Help All Americans Build Savings," Heritage Foundation *Backgrounder* No. 3370, December 4, 2018, https://www.heritage.org/sites/default/files/2018-12/BG3370_0.pdf.

Social Security Is Not Secure

Social Security is—or at least was originally intended—to function much as a defined benefit pension program functions.[19] It was established in the wake of the Great Depression to help protect against poverty in retirement and against the risk of outliving one's savings. Social Security's designers also created the program to protect younger generations from bearing the financial burden of providing for the welfare of older generations.[20]

Failure of past and current lawmakers to align Social Security's benefits with its payroll taxes has caused Social Security to fail on each of these accounts.

Social Security will be insolvent in nine years, and benefits will be cut across the board by 23 percent for every single retiree. That will be an average benefit cut of $5,300 per year for retirees. Workers' "contributions" have not been set aside for their retirement, but instead have been spent on increased benefits (as well as being lent out to finance other federal government spending). For the past 13 years, every dollar that workers have paid in Social Security taxes has gone immediately to pay benefits for current retirees.

Social Security's shortfalls are enormous. The program has accumulated $22.4 trillion in unfunded liabilities, which comes to $172,000 per household. That is the cost of maintaining the program in its current form over the next 75 years.

Maintaining Social Security's current benefit structure would require enormous tax increases. According to the Social Security trustees, if policymakers acted now, they could prevent insolvency by immediately hiking Social Security taxes by 3.4 percentage points from 12.4 percent to 15.8 percent.[21] That would be an extra $2,500 in taxes every year for the typical household.

The Congressional Budget Office estimates that Social Security's shortfalls are even larger and would require an immediate 4.9 percentage-point tax hike from 12.4 percent to 17.3 percent to

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[19] Social Security's founders planned for the earliest recipients to receive windfall benefits that exceeded the value of any contributions they made, and that those windfall benefits would be replenished at a later date and subsequent recipients would receive benefits proportional to their payroll taxes.

[20] President Franklin Roosevelt's Council on Economic Security, which provided the initial recommendation for the establishment of Social Security, wrote, "It is only through a compulsory, contributory system of old-age annuities that the burden upon future generations of the support of the aged can be lightened." Council on Economic Security, "CES Report—Letter of Transmittal" submitted to President Franklin Delano Roosevelt by committee members Frances Perkins, Secretary of Labor; Henry Morgenthau, Jr., Secretary of the Treasury; Homer Cummings, Attorney General; Henry A. Wallace, Secretary of Agriculture; and Harry L. Hopkins, Federal Emergency Relief Administrator, January 15, 1935, https://www.ssa.gov/history/reports/ces2.html (accessed February 24, 2024).

[21] Rachel Greszler, "Social Security Forecast Significant Deterioration, 23% Benefit Cuts in Just 10 Years," The Daily Signal, March 31, 2023, https://www.dailysignal.com/2023/03/31/social-security-trustees-forecast-significant-deterioration-23-benefit-cuts-in-just-10-years/.

preserve current benefits. That would be an extra $3,700 in taxes every year for the typical household.[22]

As a "Retirement Program," Social Security Is Not a Good Deal

Many Americans and policymakers have come to view Social Security as a retirement savings program, but if that is the program's role, Social Security provides comparatively abysmal returns and can result in meager benefits.

Social Security strips Americans of the opportunity to earn a positive return. An analysis I conducted with my Heritage Foundation colleagues found that median-income earners could expect to receive nearly three times as much monthly retirement income as Social Security will provide if they could instead put their Social Security taxes into personal retirement accounts.[23] Even a very low-income earner could expect to receive 40 percent more retirement income from personal savings than from Social Security.

Social Security is an especially raw deal for individuals with shorter life spans. Whereas people who live the longest collect the most Social Security benefits, some individuals pay into the system for decades and get almost nothing back in return. Those who lose out are disproportionately low-income and black. Men in the lowest-income quartile have life expectancies of 10 years less than men in the top quartile, while women in the bottom quartile have life expectancies of five years less than women in the top quartile.[24] Life expectancy at birth is 5.5 years less for black Americans than for whites, [25] and nearly one-in-four black men in the U.S. will die between ages 45 and 65, likely having paid tens, if not hundreds, of thousands of dollars in taxes to Social Security while receiving little or nothing in return.[26]

[22] The CBO arguably uses more realistic assumptions on inputs such as fertility rates (which have plummeted since 2008) and interest rates (which surged over the past year). Rachel Greszler, "Benefit Cuts of 23%—and 4 Other Things to Know About the Government's New Social Security Projections," The Daily Signal, December 21, 2022, https://www.dailysignal.com/2022/12/21/benefit-cuts-of-23-and-4-other-things-to-know-about-the-governments-new-social-security-projections/.

[23] Rachel Greszler and Julia Howe, "3 Examples of How Social Security Robs Americans of Greater Income Before, During Retirement," Heritage Foundation *Commentary*, August 24, 2018, https://www.heritage.org/social-security/commentary/3-examples-how-social-security-robs-americans-greater-income-during.

[24] Life expectancy in this study was measured as remaining expected years at age 40. Raj Chetty et al., "The Association Between Income and Life Expectancy in the United States, 2001–2014," *Journal of the American Medical Association*, Vol. 315, No. 16 (April 26, 2016), pp.1750–1766, https://www.ncbi.nlm.nih.gov/pmc/articles/PMC4866586/ (accessed February 24, 2024).

[25] Table A, "Expectation of life, by age, Hispanic origin and race, and sex: United States, 2021," in "United States Life Tables, 2021," U.S. Department of Health and Human Services, Centers for Disease Control and Prevention, National Center for Health Statistics, National Vital Statistics System, *National Vital Statistics Reports*, Vol. 72, No. 12 (November 7, 2023) p. 3, https://www.cdc.gov/nchs/data/nvsr/nvsr72/nvsr72-12.pdf (accessed February 24, 2024).

[26] Among all black men born in the United States, 23.6 percent are estimated to die between the ages of 45 and 65, compared to 16.8 percent of white men. Ibid, p. 10, Table B, "Number of Survivors out of 100,000 Born Alive, by Age, Hispanic Origin and Race, and Sex: United States, 2021."

Alternatively, if Social Security is viewed as a social insurance program, it also functions poorly because social insurance is supposed to be needs-based, but Social Security provides the largest benefits to the highest earners.

Time is Running Out: Lawmakers Must Reform Social Security

The longer politicians wait to address Social Security's inevitable insolvency, the higher will be the costs of reform. Social Security's unfunded liabilities have quadrupled over the past 13 years from $5.4 trillion in 2010 to $22.4 trillion in 2023. That means that either drastically higher tax increases or benefit cuts are necessary now than would be necessary if Congress had acted sooner. To prevent even greater costs of reform, policymakers should immediately reform Social Security to preserve and improve the program.

The Heritage Foundation has a reform proposal that would make Social Security solvent in the long run, increase benefits for lower-income earners, provide an optional wealth-building component, and allow for a roughly 20 percent reduction in Social Security's payroll tax. Those reforms include gradually shifting to a universal benefit that would lift more people out of poverty, modernizing the program's eligibility age, using a more accurate inflation index, eliminating Social Security's retirement earnings test, and allowing people to put part of their Social Security taxes into a personal account that they own and can pass on to their families.[27]

This is very different from other Social Security reform proposals: Senator Sanders' Social Security Expansion Act, for example, would impose $33.8 trillion in new taxes over the next 75 years.[28] The Penn Wharton Budget model estimates that a bigger Social Security program[29] would lead to a significantly smaller economy and smaller household incomes, while a smaller and better targeted Social Security program would lead to a larger economy and higher household incomes.[30]

Multiemployer Pensions Are Destitute

Multiemployer pensions are union-managed pension plans (with employer representation) that provide pensions to workers representing multiple employers within a particular industry. Because unions made the case that multiemployer plans would provide their own level of insurance with remaining employers covering any potential shortfalls of employers that went out of business, multiemployer plans were granted special treatment including far less stringent funding requirements

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[27] Rachel Greszler, "Social Security Policy for the Next Administration and 117th Congress," Heritage Foundation *Backgrounder* No. 3559, November 19, 2020, https://www.heritage.org/sites/default/files/2020-11/BG3559.pdf.

[28] Rachel Greszler, "Social Security Expansion Act: $33.8 Trillion Tax Would Destroy Jobs, Slash Incomes, and Increase Workers' Dependence on the State," Heritage Foundation *Backgrounder* No. 3758, March 31, 2023, https://www.heritage.org/social-security/report/social-security-expansion-act-338-trillion-tax-would-destroy-jobs-slash.

[29] Penn Wharton Budget Model, "The Sanders Plan for Social Security," University of Pennsylvania, March 9, 2020, https://budgetmodel.wharton.upenn.edu/estimates/2020/3/9/sanders-social-security (accessed February 24, 2024).

[30] Penn Wharton Budget Model, "PWBM Budget Contest: A Flat Benefit for Social Security," University of Pennsylvania, January 26, 2021, https://budgetmodel.wharton.upenn.edu/issues/2021/1/26/budget-contest-flat-benefit-for-social-security (accessed February 24, 2024).

under the Employee Retirement Income Security Act (ERISA) of 1974 and drastically lower premiums under the Pension Benefit Guarantee Corporation (PBGC). Moreover, subsequent 21st century pension reform laws effectively exempted the worst-funded plans from funding rules.

Defined benefit pensions can provide secure retirement income only if those in charge of the pensions manage them properly, including by requiring sufficient contribution levels to make good on promised benefits. That was not the case as union pension plans consistently promised more than the contributions they set aside could provide, and when shortfalls became evident, the plans failed to take corrective action.[31]

Mismanaged Private Union Pensions. The result of lax funding rules and reckless mismanagement of union pension funds is a deeply broken multiemployer pension system for approximately 11 million unionized workers and retirees.[32] As of 2020, the multiemployer pension system as a whole had an estimated $823 billion in unfunded liabilities and was on track to pay retirees only 41 cents for every dollar in promised pension benefits. [33] The failure of multiemployer pension plans is systemic with 77 percent of all multiemployer pension participants in plans that were less than 50 percent funded in 2020 and 96 percent of all participants in plans that were less than 60 percent funded.[34] A mere 0.5 percent—one out of every 200 workers—was in a plan with 90 percent or higher funding.

Taxpayer Bailout of Select Private Union Pension Plans. In 2021, under the guise of COVID-19 relief and through the American Rescue Plan, Congress passed a partisan and unprecedented taxpayer bailout of select private-sector union pension plans. Because an $823 billion bailout of all 1,400 multiemployer plans was not feasible, lawmakers chose to bail out just 15 percent of plans that were on track to run out of money the soonest. After the law was passed and bailouts began to be distributed, the Biden Administration's PBGC changed the stipulations of taxpayer bailouts—in a way that the PBGC had previously said it did not have the authority to do—to provide an additional $4.5 billion of taxpayer money to the failed plans.[35]

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[31] Rachel Greszler, "Not Your Grandfather's Pension: Why Defined Benefit Pensions Are Failing," Heritage Foundation *Backgrounder* No. 3190, May 4, 2017, https://www.heritage.org/sites/default/files/2017-05/BG3190.pdf.

[32] Table M-5, "PBGC-Insured Plan Participants (1980–2022)" Pension Benefit Guaranty Corporation, Multiemployer Program, Covered Plan Information Tables, https://www.pbgc.gov/sites/default/files/documents/2021-pension-data-tables.pdf (accessed February 24, 2024).

[33] Table M-9, "Aggregate Funding of PBGC-Insured Plans (1980–2020)," Pension Benefit Guaranty Corporation, Multiemployer Program, Covered Plan Information Tables, https://www.pbgc.gov/sites/default/files/documents/2021-pension-data-tables.pdf (accessed February 24, 2024).

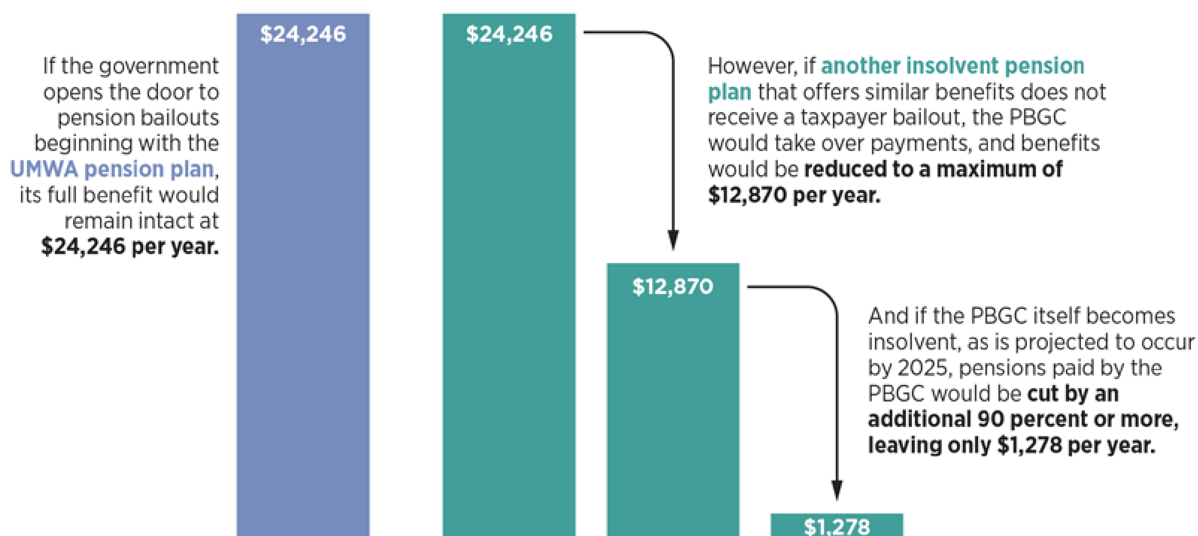
[34] Table M-13, "Plans, Participants, and Funding of PBGC-Insured Plans by Funding Ratio (2020)," Pension Benefit Guaranty Corporation, Multiemployer Program, Covered Plan Information Tables, https://www.pbgc.gov/sites/default/files/documents/2021-pension-data-tables.pdf (accessed February 24, 2024).

[35] Rachel Greszler, "Biden's Abuse of Power Causes CBO to Raise Cost Estimate of Private Pension Bailouts by $4.5 Billion," The Daily Signal, October 12, 2022, https://www.dailysignal.com/2022/10/12/bidens-abuse-of-power-causes-cbo-to-raise-cost-estimate-of-private-pension-bailout-by-4-5-billion.

While the following graphic from a 2017 report of mine was hypothetical at the time, it provides a general picture of what is now happening. Beneficiaries in plans that received bailouts will get 100 percent of their promised benefits; beneficiaries in the majority of plans that did not get bailouts will receive large benefit cuts when their plans become insolvent; and when the PBGC becomes insolvent, beneficiaries of failed plans will receive only a small fraction of what they earned and were told they would receive.

CHART 2

Pension Bailouts Would Unfairly Preserve Select Workers' Benefits While Others Face Massive Pension Cuts



SOURCES: Author's calculations based on the UMWA's pension benefits for a 62-year-old worker who retires in 2016 with 30 years of work history. Data on UMWA's pension eligibility are from UMWA Health and Retirement Funds, Pension Eligibility Requirements, http://www.umwafunds.org/Pension-Survivor-Health/Pages/Eligibility-Requirements.aspx (accessed March 9, 2016). Data on pension benefit cuts are based on PBGC's guaranteed level and U.S. Government Accountability Office, "Private Pensions: Multiemployer Plans and PBGC Face Urgent Challenges," testimony before the Subcommittee on Health, Employment, Labor and Pensions, Committee on Education and the Workforce, House of Representatives, March 5, 2013, http://www.gao.gov/assets/660/652687.pdf (accessed March 10, 2016).

BG3190 heritage.org

Congress's Failure to Prevent Further Deterioration of Destitute Private Union Pensions. Instead of enacting reforms to improve the calamitous state of nearly 1,200 plans that did not receive bailouts, the American Rescue Plan kicked the can down the road while incentivizing even greater underfunding. In 2018, financial economist and professor Joshua Rauh testified that 83 percent of multiemployer pension plans were digging themselves deeper into debt each year, and that percentage has likely only grown over time and with the incentive of future bailouts.[36]

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[36] Testimony of Joshua D. Rauh, Ph.D., Senior Fellow and Director of Research, Hoover Institution, and Ormond Family Professor of Finance, Stanford University, Stanford, CA, in hearing, How the Multiemployer Pension System Affects Stockholders, Joint Select Committee on Solvency of Multiemployer Pension Plans, U.S. Congress,

With 96 percent of workers in plans that are less than 60 percent funded, nearly every multiemployer pension plan that did not receive a bailout is on track to become insolvent. Moreover, the Congressional Budget Office has said that even the plans receiving taxpayer bailouts are still likely to become insolvent shortly after their bailout funds run out in 2051.[37]

Bailed-Out Defined Benefit Pensions Cannot be Compared to Non-Bailed-Out Defined Contribution Plans. Without the current taxpayer bailout of select multiemployer pensions, more than one million workers in those plans would have received mere pennies on the dollar in promised benefits. And without substantially larger future bailouts—covering at least another $733 billion in unfunded pension benefits—nearly 10 million other workers and retirees will be left with pennies on the dollar in promised benefits.

It is economic malpractice to compare multiemployer pensions that have received taxpayer bailouts to 401(k)s that have not received similar bailouts. If Congress had injected the equivalent of the $90 billion multiemployer pension bailout into 401(k) plans, it would have added $1.086 trillion to existing 401(k) assets. A full taxpayer bailout of the multiemployer pension system's $823 billion in unfunded promises would be equivalent to adding $9.896 trillion to existing 401(k) accounts.

Why Congress Needs to Protect Taxpayers and Minimize Losses for Multiemployer Pension Beneficiaries. Even including the taxpayer bailout of select private union pension plans, close to 10 million workers and retirees remain in plans that can pay roughly 50 cents on the dollar in promised benefits, and what is payable is declining each year. Congress must act to fix the rules so that neither unions nor employers can promise more in pension benefits than they set aside to pay. The enormity of current underfunding makes it impossible to make up the shortfalls and prevent some benefit losses, but there are ways that policymakers can minimize losses, particularly for the most vulnerable.

Reforming multiemployer pension requires seeking to restore basic principles of fairness and equity:

- It is not fair for employers and unions to make promises they cannot keep.
- It is not fair for Congress to force taxpayers to bear the burden of employers' and unions' broken promises.
- It is not fair for the government to force pension plans to purchase PBGC insurance and then neglect to ensure that the PBGC can provide the insurance it sells.
- It is not fair for the government to allow pension plans to keep making promises they cannot keep.

115th Congress, 2nd Session, July 25, 2018, https://www.congress.gov/115/chrg/CHRG-115jhrg39994/CHRG-115jhrg39994.pdf (accessed February 24, 2024).

[37] Letter from Phillip L. Swagel, Director, Congressional Budget Office, to the Honorable Mike Enzi, Chairman, Committee on the Budget, U.S. Senate, "Re: Potential Effects of H.R. 397, the Rehabilitation for Multiemployer Pensions Act of 2019," September 6, 2019, https://www.cbo.gov/system/files/2019-09/Enzi_letter_hr397.pdf (accessed February 24, 2024).

- It is inequitable for the government to create separate rules and requirements for single-employer pension plans and multiemployer pension plans; union workers deserve pensions that are just as safe and secure as non-union workers' pensions.

Guided by these basic principles, I have proposed 12 reforms that would restore the PBGC's solvency, create a more secure multiemployer pension system similar to dependable single-employer pensions, and minimize pension losses. A more detailed explanation of these proposed reforms can be found in a report of mine titled, "Congress's Multiemployer Pension Committee Should Act Now: 12 Reforms to Protect Pensioners and Taxpayers."[38]

12 Reforms to Protect Pensioners and Taxpayers

Reforming PBGC

1) Increase the base PBGC premium at least threefold.

2) Implement a variable-rate premium, applicable to all new unfunded liabilities.

3) Enact a minimum retirement age.

4) Mandate that the PBGC take over plans when they fail, as it does for single-employer plans.

5) Impose a stakeholder fee.

Creating a More Secure Multiemployer System

6) Require multiemployer plans to use reasonable discount-rate assumptions that strengthen plan solvency.

7) Prohibit plans from shortchanging workers by re-enacting an excise tax on multiemployer plans' shortfalls in annual required contributions (as exists for single-employer plans).

8) Freeze dangerously insolvent plans.

9) Prohibit collective bargaining from setting contribution rates.

10) Require employers to recognize unfunded liabilities on their balance sheets.

Minimizing Pension Losses

11) Enhance Multiemployer Pension Reform Act (MPRA) provisions to minimize benefit cuts across workers.

12) Allow workers a buy-out option.

In addition to fixing the multiemployer pension system for plans that do not receive taxpayer bailouts through the American Rescue Plan, it has unfortunately become necessary for Congress to pass additional legislation to protect the accountability and integrity of existing bailouts. Moreover, the PBGC has failed to protect the integrity of taxpayers' money when distributing bailouts. The Central State Teamsters pension fund received $35.8 billion of taxpayer money in December of 2022. A recent inspector general report found that the PBGC failed to verify whether individuals

[38] Rachel Greszler, "Congress's Multiemployer Pension Committee Should Act Now: 12 Reforms to Protect Pensioners and Taxpayers," Heritage Foundation *Backgrounder* No. 3368, November 20, 2018, https://www.heritage.org/sites/default/files/2018-11/BG3368_0.pdf.

listed as beneficiaries in plans' applications were still living. Consequently, the PBGC sent $127 million to the Central State Teamsters pension plan on behalf of at least 3,479 dead pensioners included on the Teamsters' bailout request. Although the PBGC has the authority to recoup these funds, it has indicated that it does not plan to do so.

The gross injustice of taxpayer bailouts for reckless pension plans is bad enough. Worse is the fact that Congress now has to spend time and energy trying to pass a law to prevent the government entity responsible for distributing those bailouts from recklessly enabling fraudulent receipt of taxpayer funds. Senator Cassidy's and Representative Foxx's Ghost Handouts and Overpayments Stop Today (GHOST) Act would require the PBGC to cross-check all past and future bailout applications with the full Death Master File to prevent taxpayers' money from going to union pension funds on behalf of dead individuals.[39] The bill would also require the PBGC to recoup past payments on behalf of dead people.

State and Local Pensions Have Promised Nearly $7 Trillion in Unfunded Liabilities

State and local pension funds are outside the jurisdiction of Congress, so I will only briefly summarize their failures, which must be corrected by state and local lawmakers.

According to the American Legislative Exchange Council, state and local pension plans have promised an estimated $6.96 billion in unfunded pension liabilities.[40] That is the equivalent of $21,000 per person. Some states are in vastly worse shape than others, with Alaska having the highest unfunded pension liabilities at just over $46,000 per capita, while Tennessee is in the best shape with unfunded pension liabilities of about $7,700 per capita.

Taxpayers will be on the hook for most of these unfunded liabilities because state and local employees generally have a legal right to the pension benefits stipulated in their plans. In some states, like Illinois, policymakers cannot even prospectively alter pension plans after a worker has been hired: For example, they cannot increase worker contribution rates in the future, nor can they raise future retirement ages.

States that have shifted to defined contribution plans have significantly reduced their unfunded pension liabilities, simultaneously protecting taxpayers and providing workers and retirees with personal ownership, portability, and potentially higher rates of return.[41]

[39] S. 3682, Ghost Handouts and Overpayments Stop Today Act (GHOST Act), 118th Congress, 2nd Session, introduced January 30, 2024, https://www.congress.gov/118/bills/s3682/BILLS-118s3682is.pdf (accessed February 24, 2024).

[40] Thomas Savidge and Jonathan Williams, "Unaccountable and Unaffordable: Unfunded Public Pension Liabilities Exceed $6.96 Trillion," 7th Edition, American Legislative Exchange Council, 2022, https://alec.org/wp-content/uploads/2023/09/UAUA-7th-Edition.pdf (accessed February 24, 2024).

[41] Although individual investing is likely to receive the same returns as pension fund investments receive, underfunded pension plans deliver lower returns. For example, a retirement contribution of $10,000 would deliver $600 of returns in one year with a 6 percent rate of return, but a pension fund that is only 50 percent funded—having only $5,000 of the stipulated $10,000 in the account—would deliver only $300 in returns.

Summary

Older Americans are significantly more secure financially than younger generations are. Both participation in retirement savings plans and retirement savings amounts are rising. Younger generations will bear far greater financial burdens than past generations due to the unsustainable federal debt. Policymakers should not further increase the redistribution of incomes from younger to older generations.

The growth in defined contribution retirement plans has improved Americans' overall retirement security while providing the added benefit of personal ownership and portability across jobs. While defined contribution plans do not guarantee a particular monthly amount or a lifetime of benefits, they do guarantee that participants can control their savings, can continuously know the value of their savings, and can pass their accounts on to family members.

Defined benefit pension plans—while declining—can offer a secure, lifetime retirement income if they are adequately funded. Single-employer pension plans generally provide this lifetime security. Social Security, union pension plans, and state and local pension plans are not secure as they have promised drastically more in benefits than they have set aside to pay. If left unaddressed, the insolvency of these plans will present a retirement crisis for tens of millions of Americans.

Policymakers should act now to minimize pension losses and taxpayer bailouts and must ensure that no pension plan—whether managed by an employer, a union, or a government—is legally allowed to make pension promises without setting aside enough money to make good on those promises. Congress should also reform Social Security immediately both to preserve the program for those who are most in need and to improve it for current workers and future generations.

Other policies, such as enacting Universal Savings Accounts, could help all Americans save in one simple and portable account that could be used for expected and unexpected events across all ages and stages of life.

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