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One Man's Opinions – Winter 2012

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As we enter the new year of 2012, we typically plan ahead and make resolutions for changes in our lives. While I am well aware that many readers are already retired, or at least, like me, semi-retired, spending Christmas weekend with my rapidly growing family (now numbering 32 blood descendants with #33 set to arrive this spring) makes we aware of the importance of helping them plan for their own retirements.

For starters, all six of my children are middle aged now (48-55), the older four already grandparents themselves. Almost half the 12 living grandchildren are now married with children. The 13 great-grandchildren, ages two months to 15 years old, have their lives pretty much ahead of them, of course. But a remark by my 21 year old grandson, who was holding his two month old son at the time, gave me pause.

He is still in college and remarked that he did not expect to receive any Social Security in his old age. Many of his generation have a similar belief. To an extent this is healthy, because they can and should save and prepare for their own retirement and old age now and throughout their lives, not counting on receiving full social security benefits. However, I do think he and they are in error in their belief that there will be NO Social Security for them. They will just not get as much or as soon as what did.

Let's review the history of retirement in our culture. Prior to and during the Great Depression the concept of "retirement" did not even exist. People worked as long as they could at whatever work they could find or create. When they got too old or too disabled to work, they lived on their own savings and/or moved in with their children or other family. Retirement on one's own savings was an option, but only a very few could do so.

We must remember that when Social Security was created in the late 1930's, the average person lived only into his or her early sixties. Congress then set the age for Social Security to start at 65. With unemployment at 25%, their goal was not to give the old people a secure old age, but rather to bump them out of the workforce, making room for younger people to enter.

Prosperity after World War II allowed for earlier and earlier retirements. Corporations created "defined benefit" retirement programs to integrate with Social Security and promised a "comfortable" life style for the rest of employees' lives. Fifty years ago, when I entered the investment business, it was common for these defined benefit programs to "kick in" when the combined age of an employee and his or her time in service to the company equaled 80. They would then receive retirement income for life. Indeed, as a young stockbroker, I met many people here in Indianapolis who joined Eli Lilly, Indiana Bell, or some other major employer right out of high school and who were eligible for full retirement at 49 or 50! Many employers even arranged for the full benefit programs to pay out enough extra to those under 62, who were not yet eligible for social security benefits, drawing extra offsetting funds from their pensions until they could qualify.

I point out to people that, if they do not take the retirement income due them at 50, 60, or even more, they are, in effect, working for far less than they are worth. I pointed this out to my 32 year old grandson this weekend. He is 14 year senior sergeant in the U. S. Army, and is about to become a Warrant Officer at considerably higher pay (He is a detective). He can retire after 30 years at 75% of pay. He will be 48 years old. Why should he continue to work for the army then, when he can retire, collect his 75%, and go to work for the local sheriff or police department for likely a higher salary than he is then drawing from the army? He will then also begin piling up *another* pension, and he may get some credit for his military time as well.

The entire scenario as originally envisioned after World War II was just wonderful, but something intervened! The medical and drug people produced a series of breakthroughs in geriatric health care, resulting in the average lifespan in the United States jumping from the early sixties to mid-80's currently. People now live in retirement for decades, not just a few years.

The private corporate world saw all this coming and reacted accordingly. In the 1980's they began to adopt 401(k) programs where employees can contribute to their own retirement plans on a pretax basis. The employers normally match a certain percentage of contributions, such as 6%, but the employee can contribute more if they wish, still tax deductible, up to a limit set by law. These became wildly popular with employees in the 1980's, enabling employers to withdraw from offering defined benefit programs. In actual fact, defined benefit programs are generally superior (and much more expensive) than defined contribution programs, such as the 401(k) and its sister programs, 403(b) and 457 plans, which are for non-profits and government employers.

The problem we now face in the United States, and to an even greater extent, in the other western democracies and Japan, is that nearly all government employee benefit programs remain the more expensive defined benefit type. This is further hampered by the various government entities, from the U.S. military, to the states themselves, and to various municipalities NOT fully funding their pensions (setting aside money to pay these future benefits), or even not funding them at all! Some private employers have also been guilty of under-funding their retirement plans, but since this cost is deductible for federal tax purposes, most have been funded to at least a some degree.

Politicians are notorious for "kicking the can" down the road, rather than facing and solving a problem during their own time in office. We just saw an excellent example in our Congress refusing to renew the Social Security "tax cut" for another year, settling on two months instead, and saving the average worker the grand sum of $40 for 2012! I am pretty sure that will NOT have any enormous impact on the U. S. economy and job growth.

In any event, the majority of government defined benefit programs are not funded or are only partially so. Thus, today's politicians are faced with the "cans" which their predecessors have kicked down the road and into their laps. Along with retirement plans, they may also be responsible for providing continuing health care until age 65 for their younger retirees. We all know these costs have escalated to a shameful degree.

So over the past 65 years, the employee retirement and health benefits to which long-gone politicians agreed were overly generous. Now current elected leaders are forced to pull things back to reality and amend future benefits. Often they face rebellion from their workers, especially from any unions involved. I can understand the fury; none of us likes to lose benefits that we have been promised and which we looked forward to. But the reality is *all* employers, not just the taxpayer- funded ones, are faced with reducing their exposure to increasingly lengthy future retirements.

The solutions are there but, just as in Europe, they are very painful to the employees and recipients involved. But changes MUST be made, since the problems will only get worse if we continue down the path we have been on.

For starters, Social Security must be adjusted to reflect the longer life expectancy. The current law, which moves the age when one can receive full benefits, must be continued, adjusted eventually to 70. The age for early retirement, again on a graduated basis, must be moved up to 65. The notion of taxing earnings over $110,000 to raise more funds for retirees is a poor one. The program would have to then adjust those workers' future benefits reflecting the higher contributions. Wealthy people would get much more from the fund, and they do not need it. Not doing so would violate the whole principal of the program, in that it was created to force people to put money aside for their old age. To do otherwise would require a major legislative change, and I do not see this as possible with our current Congress, or the one I see coming in 2013.

Medicare has been a bonanza for us older citizens. Major changes are necessary, changing the entire medical system. But ObamaCare as currently enacted, taking the place of Medicare, simply will not work. As an example, all personal medical records must be digitalized and available to any medical personnel we designate. My own physician has already taken this step, and his group constitutes several hundred providers affiliated with a major hospital network. This is the way of the future.

Limits on medical liability, which we already have here in Indiana, must also be put in place. Estimates are that 20-30% of medical tests ordered by physicians are enacted as a precaution against possible lawsuits. Trials featuring non-medical juries ordering multi-million dollar penalties for human mistakes must stop. Doing so would also sharply lower the costs of medical liability insurance, which in turn would allow physicians and other providers to work part-time well into their 70s, alleviating the current shortage. The trial lawyers will howl, but right now their excesses cost us hundreds of billions of dollars annually.

There are surely many other ideas that sensible people in both parties serving the public can propose to further lower these costs. Let us hope the Congress will allow them to do so.

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