

## **TRANSFORMATION AND PRESERVATION OF PRIVATE SECTOR RETIREMENT SYSTEM**

### **May 18, 2009**

This is the first article in an ongoing series about our Nation's private sector retirement system. The current difficult economic, financial, and investment conditions have caused serious damage to the retirement dreams and security for nearly all of us. A fundamental and primary source of retirement income for more than 75 years - Social Security - is going to change radically in the not-too-distant future. Social Security may very well become irrelevant for many of us as a source of retirement income.

Some or all of the following were traditional sources of retirement income:

- Personal after-tax savings.
- Personal pre-tax IRAs.
- Home equity in primary residence.
- Social Security retirement benefits.
- 401(k) plan accumulations from employer-sponsored 401(k) plans with voluntary employee pre-tax salary deferral contributions and employer matching contributions in many cases.
- Fixed and guaranteed lifetime monthly retirement benefits from employer-sponsored and funded defined benefit pension plans.

Even in good times, we have not been good personal savers. In these difficult times, personal after-tax savings and pre-tax personal contributions to IRAs have fallen to all-time lows from already low levels in the first place. These 2 traditional sources of retirement income just do not exist due to our dismal saving habits.

The inflated real estate market collapsed and most homes have dropped in value by 35% to 50% or more. Many unfortunate people now have home mortgages which are more than their home values. This traditional source of retirement income – home equity by selling your home for a tidy profit or by drawing on your equity – has shrunk substantially or disappeared for many of us.

The challenges faced by the Social Security System are substantial. Just last week, the SSA's own trustees announced: "Medicare will become insolvent by 2017 (2 years earlier than we projected last year) and funds for Social Security retirement benefits will be exhausted by 2037 (4 years earlier than we projected last year)." There are other credible independent studies about Social Security retirement benefits which show that there will not be enough money to pay benefits several years earlier than 2037. Millions and millions of baby boomers have already started receiving their Social Security benefits, there are many more millions of them in line over the next 15 years, and these baby boomers are in better health and will live longer than all who preceded them. This traditional source of retirement income faces serious demographic challenges that will cause it to run out of money much sooner than expected.

That leaves us with 401(k) plans and defined benefit pension plans as perhaps the 2 most important sources of retirement income in our private sector retirement system. Future articles will deal with the successes and failures of these plans.

We encourage you to participate in this important discussion. We will set up a "blog" to make this more convenient. In the meantime, use the "Contact Us" section of our website to submit your comments about our Nation's private sector retirement system.