



## When Did Retirement Become a Game of Jenga?

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Remember the American Dream? Get a good education, find a good job, own a home, raise your family and retire comfortably when you turn 65. Build a solid foundation when you were young and you would have a wonderful life.

I recall many friends taking jobs as teachers, firemen, police officers, or working for **Sears (SHLD)**, **United Airlines (UAL)** or Motorola that were headquartered in our area.

They rationalized that their jobs may not pay as well as some others; however when you factor in insurance and pension benefits, they were solid. Do a good job; move up the ladder and eventually you would be set for life.

A hundred years ago there were no pensions. You were expected to work until you died. Are we moving back to that? Many retirement dreams are in jeopardy, no matter where you worked.

When President Roosevelt signed Social Security into law, he was trying to get seniors off the payroll. In 1945 there were 41.9 workers for each retiree. In 2013 the number dropped to 2.8. Today the trust fund is full of government IOU's that are now coming due. Who will pay the \$103 trillion in unfunded government promises?

What about private industry? CNN Money tells us, "The percentage of workers in the private sector whose only retirement account is a defined benefit pension plan is now 4%, down from 60% in the early 1980s." Private industries realized they could not fund guaranteed benefit pension plans and continue to remain profitable.

Older employees were "grandfathered" in while 401(k) and other types of defined savings plans replaced pension plans for the younger people. ***Income certainty was removed, and replaced with individual responsibility for saving and planning.*** That yanked several Jenga blocks out of the solid foundation.

Many companies, unable to survive, filed for bankruptcy. Their pension obligations were turned over to the The Pension Benefit Guaranty Corporation. (PBGC), the government agency that administers pension plans.

Retired airline employees took significant benefit cuts when their company went under. One Jenga log after another disappeared.

### The Process Will Continue

Valuwalk cites recent data:

“(T)he PBGC published a report showing that its multi-employer plan program faces a 43% likelihood of insolvency within 10 years if the current level of per participant premiums, which are indexed, remain in place. Furthermore, that likelihood rises to 93% within 20 years, assuming that none of the plans suspend benefits or receive financial assistance...”

The Washington Post reports, “One of the nation’s largest pension funds could soon cut benefits for retirees.” The Central States Pension Fund handles retirement benefits for 407,000 Teamster union truck drivers, and the Treasury Department rejected their plan to cut benefits, which is allowed by a law passed in 2014.

Kenneth Feinberg, the special master appointed by the treasury explained, “We at the Treasury do not believe that the plan, as submitted, will reasonably avoid insolvency.” Mr. Feinberg also questions the 7.5% average annual investment returns projected by the plan, calling them “significantly optimistic”.

The Washington Post suggests a bail out, “...(M)embers of the plan say they hope lawmakers will support alternative legislation that could improve the fund in a way that is less painful to retirees.”

Karen Friedman, executive vice president of the Pension Rights Center adds, “We are thrilled that retirees now can sleep knowing that their pensions are not going to be cut, but we still know there has to be a long-term solution, and this is going to put pressure on Congress to come up with that solution.”

### **Gimme Some of Your Money!**

Union members, working for private companies, paid into pension funds, managed by the unions and they are underfunded. It should be their problem!

### **Why Is It up to Congress to Come up with a Solution? Why Is It up to the Taxpayer to Bail Them Out?**

The all-powerful Illinois unions have their pension guarantees written into the state Constitution. Chicago Mayor Rahm Emmanuel attempted to overhaul their bankrupt pension system. The Illinois Supreme Court unanimously rejected his bailout plan and said it’s up to the legislature, not the court system, to fix their fiscal problems. They did not stop there.

Bloomberg recently reported,

“Chicago’s Pension-Fund Woes Just Became \$11.5 Billion Bigger. Thanks to the ... *new accounting rules* (emphasis mine), Chicago’s so-called net pension liability ... soared to \$18.6 billion by the end of 2015 from \$7.1 billion a year earlier ... The fund serves some 70,000 workers and retirees.”

### **Politicians Want to Hide the Truth**

It is not just Chicago. Last fall the Wall Street Journal reported “Public Pension Funds Roll Back Return Targets”. They conclude, “The average target of 7.68% is the lowest since at least 1989. The peak was 8.1% in 2001.”

An actuarial task force was surprised when they were disbanded. They produced a paper “challenging the standard actuarial practice of valuing public pension plan liabilities. ... Current public plan practice uses the long-term investment return of assets to value liabilities. The paper challenged that practice”

Members of the task force said, “This paper (is) being censored. ... Others ... said the two actuarial groups are trying to suppress publication of the paper.”

Jenga wood rots away while politicians suppress the truth.

### The Ugly Truth

Calpers (The California Public Employees’ Retirement System), the largest US public pension fund, earned 0.6% on its investments for the fiscal year ended June 30, and their giant’s private-equity portfolio posted returns of 1.7%.

### Ridiculous Pension Promises

Not only are Illinois pensions underfunded, the Illinois Policy Institute published a graph comparing pension contributions with pension benefits and came to the following conclusion:

“The generous retirement benefits pensioners receive are fundamentally unfair to the taxpayers who are forced to pay for them...”

... (I)t’s clear that politicians made promises they couldn’t keep – promises Illinois taxpayers could not afford to fund.”

**Pension benefits of recently retired, career pensioners\* in Illinois**

Pension fund	Average current pension	Average age at retirement	Average employee contribution	Average total pension payout**	Average total contribution vs. lifetime payouts
TRS	\$73,300	59	\$153,900	\$2.2 million	7%
SERS	\$50,000	59	\$63,000	\$1.6 million	4%
SURS	\$71,600	58	\$145,200	\$2.3 million	7%
JRS	\$174,600	70	\$196,700	\$2.9 million	7%
GARS	\$134,400	67	\$187,900	\$2.1 million	10%
<b>Average</b>	<b>\$66,800</b>	<b>59</b>	<b>\$128,000</b>	<b>\$2.1 million</b>	<b>6%</b>

Source: Pensioner data obtained from the 5 state-run pension systems pursuant to a 2015 FOIA request

\*Retired since Jan. 1, 2013 (GARS and JRS since Jan. 1, 2008), with 30 years' creditable service

\*\*Average total pension payout\* is based on approximate life expectancies from Social Security's available actuarial life tables. Current ages as of 2015 were used to determine pensioners' life expectancies.

@illinoispolicy

The Chicago Sun Times sees things differently:

“Most of us don’t like to pay taxes, but it’s our legal and civic obligation in a democratic society. ...last year Cook County raised sales and hotel taxes, and the City of Chicago passed the largest property tax increase in their history. ...last week’s bi-partisan proposal from rank-and-file legislators suggested raising income and sales taxes. But off the table, apparently, is a logical but

politically toxic suggestion: Tax the annual income of retirees above a certain level – say \$50,000 or \$75,000 or even higher. Illinois is one of only three states with an income tax that exempts retirees, so why not consider it?”

The reaction was predictable:

- “Wisconsin here I come....”
- “Really? Hit people on a fixed income AGAIN?”
- “Illinois starts taxing pensions, Florida here I come.”
- “Pass a tax hike and no one will retire here.”

It’s already happening. A recent study tells us, “... (N)early 20 percent of the 200,000 active retirees who received retirement benefits ... no longer live in Illinois.” The Chicago mayor is considering a property tax increase of between \$450 million and \$550 million for police and fire pensions. As taxes rise, expect the exodus to continue.

### **What about Federal Government Workers?**

In 2015 several publications cited a Cato Institute Study regarding federal government workers. “Government workers make 78 percent more than private sector.” Headlines like that certainly reinforce that government employees are now the elite in our society while the private sector pays for it.

### **What Happens When the Big Jenga Collapses?**

The solid foundation has been destroyed, the few remaining logs are rotting, and we are teetering on the verge of collapse. Individual 401 (k) and IRA plans are suffering from the government zero interest rate policy. Most pension plans are woefully underfunded.

We know the government will do everything in their power to protect themselves and their gold-plated pensions first. That means raising revenues and taxes, with little concern for the public.

Meanwhile, the political class is kicking the can down the road, not honestly addressing the problems. Fearing they will get fired, they continue to ignore reality. When things fall apart, they will play the blame game, trying to deflect blame on to others to protect themselves.

**A basic truth: The government and unions want their Jenga tower fortified by stealing blocks from the Jenga towers of others.**

They target those who saved, calling them greedy, while those who did not are victims. Who will be the political winners and losers?

- Will the government create hyperinflation and destroy everything?
- Will the welfare class see their benefits cut without storming the castle?

- Will generational warfare come into play with seniors being the culprit?
- Will health care be denied to seniors to get them off the government dole?
- Will class warfare erupt between the private sector and government workers?
- Will unions go on strike and disrupt the economy and country?
- Will there be any honest political leader capable of finding an equitable solution without a revolution?

I have a wealthy friend who grew up on an Alabama farm. When his father died he inherited 40 acres and a mule. He knows how to farm and has no intention of ever selling his mule!

Unlike a Jenga game, we cannot have a good laugh, pick up the pieces and put them back in the box.

Hope for the best, but prepare for the worst. Fortify your position – save your money. Owning extra Jenga logs will make a world of difference. Keep them hidden and out of sight. Even if a collapse does not come, it won't hurt a thing.

Until next time...