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David Lazarus: Workers face thorny problems of health care, retirement

By: David Lazarus – October 29, 2013

Like most employers, Trader Joe's is grappling with how to look after the well-being of its workers amid difficult financial circumstances.

In May, the head of the privately held Monrovia, Calif., company, which is building its first Treasure Valley store in Downtown Boise, sent a confidential memo to employees notifying them of changes to their health coverage, retirement program and wages.

"In these increasingly complex times, it has become necessary to relook at our programs," wrote Dan Bane, the chief executive and chairman. "We do not do this review lightly."

Bane said Trader Joe's would scale back its contribution to employees' retirement plans, though the company's contribution would remain generous by industry standards. He also set new limits on employee raises.

The challenges faced by Trader Joe's are shared by most U.S. businesses. Meeting workers' present and future social-welfare needs has become a crucial and highly complex issue as health care costs continue to outpace inflation and secure retirements grow increasingly out of reach for many people.

These issues highlight the vulnerabilities of a system in which people's social safeguards are tied to their employment and workers are largely fending for themselves in financial markets.

Put succinctly: Are Americans best served by relying primarily on the private sector for health coverage and for benefits in their sunset years? Or would it make more sense to pool our collective risks and look to a greater role for public programs such as Social Security and state pension plans in providing safety nets?

"If you start with the premise that Trader Joe's doesn't want to be a bad guy but can't afford these benefits — and you see that being replicated over and over again with other companies — it necessitates looking at some non-private-sector responses," said Bob Bruno, a professor of labor and employment relations at the University of Illinois.

Not all economists agree.

Michael Tanner, a senior fellow at the libertarian-leaning Cato Institute, told me the private sector can make a meaningful contribution to people's health care and retirement needs.

For example, he acknowledged that the employer-based health care system is inefficient and frequently inhumane. If you lose your job, your entire family can be denied affordable health care.

But Tanner wouldn't do away with private insurers. He'd expand on one of the core ideas of the Affordable Care Act and have all people buy their insurance through competitive exchanges.

"This would create a system in which everyone has personal and portable insurance," Tanner said.

Bruno says a Medicare-for-all insurance system would be more efficient and would likely do a better job of making sure everyone has access to coverage.

"Is that socialism? Yes," he said. "But it's socialism American-style. Just like Social Security is socialism American-style. Just like Medicare is socialism American-style.

"No one should be crazy about this," Bruno said. "This isn't the Soviet Union. This isn't Maoism. We have powerful democratic provisions that prevent an authoritarian state. Those provisions should help us generate a system that's equitable to all people."

In speaking with various economists, I found it interesting that not one defended our system of tying health coverage to one's job. Julie Zissimopoulos, a University of Southern California professor who focuses on the economics of aging, called the employer-based system a "historical accident."

Indeed, if it wasn't for wage restrictions placed on employers during World War II, prompting them to offer health care as a benefit to attract workers, we might never have gone down this road. Chances are, we'd have joined other developed nations in crafting national health insurance plans.

Zissimopoulos proposed a hybrid of Tanner's and Bruno's ideas. She said the government should offer catastrophic insurance to all as a form of basic coverage and then allow people to buy supplemental coverage in the open market.

As for workers' retirement plans, this can be tricky — and expensive. Private-sector pensions proved too costly for most businesses. But the 401(k) plans that have replaced them have come up short in adequately meeting people's needs.

The average 401(k) balance was $80,600 as of the end of June, according to Fidelity Investments. That's not an encouraging figure considering that Fidelity estimates the typical 65-year-old couple retiring today will spend about $220,000 on health care alone.

A poll this summer by JPMorgan Asset Management found that only 20 percent of respondents believed they realistically would be able to retire by 65. More than 40 percent said they'd just have to "wing it" when it comes to retirement.

“Some of us will end up losing our retirement savings because we lost our job,” said Peter Philips, a labor economist at the University of Utah. “This disaster gets worse if, in losing our job, we lose our health insurance and become ill.”

Philips’ solution: a basic pension for all people age 70 and older that guarantees “a roof over your head, food on your table, reasonable health care and a decent burial.”

“A basic pension for all would insure all of us from the 401(k) that went south, the marriage that dissolved, the job market that collapsed, and all the other economic, social and health risks that put retirement at risk for everyone,” he said.

He’s basically proposing an expansion of Social Security, which would make a lot of sense but would be costly.

Other economists favor achieving a similar result through different means — allowing private-sector workers to participate in state pension plans. A Trader Joe’s employee, say, could buy into the mighty California Public Employees’ Retirement System.

This strikes me as a sensible solution, bolstering public pensions with private funds while allowing private-sector workers to once again enjoy the security of a pension system.

“What are the criteria for a smart retirement system?” Bruno said. “You’ve got to have steady contributions and ... smart investments. State pension plans have already shown themselves to be fairly good at this.”

Workers’ well-being is one of the most important issues we face today.

For now, employers and workers are doing the best they can.

But there are solutions. All they require is a willingness to check personal and political ideology at the door and to have reasonable discussions about what would be in the best interests of the American people.

Or we can remain an ownership society — as in, you’re on your own.