

2.8 Rising Retirement Risk

FOR DECADES, MILLIONS OF American workers relied on pensions to see them through their golden years. While workers produced goods or services for the company to sell, the company put money aside to cover their retirement.

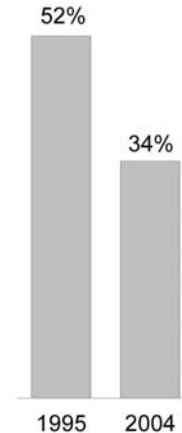
Now, many companies have either

eliminated pension plans or shifted the financial risks of retirement onto employees. Traditional pensions offered “defined benefits” that guaranteed a certain level of retirement income. But employers prefer “defined contribution” plans in which they promise only a specific contribution. If the pension fund loses value—as a result, for instance, of a tumbling stock market—the retirees suffer the consequences.

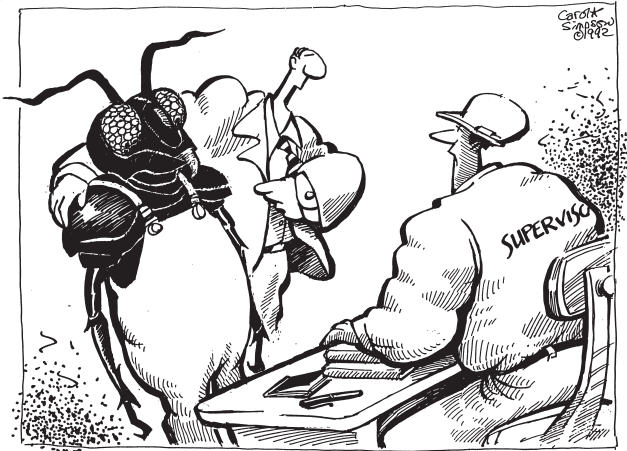
As recently as 1995, more than half of employees at medium and large firms could look forward to defined benefits in retirement. By 2004 only a little more than a third could.

To make matters worse, many pension funds are dangerously underfunded. When

Percentage of employees at medium and large firms with defined benefit retirement plan



companies can't meet their financial obligations, they can file for bankruptcy. Pension funds are only partially insured by the federal government, so employees can end up getting far less than they were promised.



“His entire adult lifespan is exactly eight hours. He won't be around long enough to need benefits.”

CAROL SIMPSON