Sweating the Golden Years

Dignified retirement is still a cherished part of the American dream, but for some that dream is only a fantasy. A rickety retirement system means more U.S. workers have to stay on and on at the job.

BY BETH SHULMAN

It's lunchtime at a McDonald's in College Park, Maryland, and William Pratt is bent over a mop, moving it slowly across the floor between bustling customers. Later he wipes off dining tables, carries trash to an outside Dumpster, washes dishes, and scrubs the toilets, sinks, and floor in the men's restroom. With white hair at his temples and a balding head, Pratt looks like anyone's grandfather. He is 71 years old.

To get to work, Pratt takes a bus from the boarding house where he lives alone. Rent is only $140 a month, but even so, he's a month behind in his payments. He eats mostly peanut butter and bread washed down with coffee. A few of his teeth are missing because he can't afford to go to a dentist, and he owes the doctor money for his last visit. His retirement income: a Social Security check that works out to about $100 per week. He has no savings.

"I can't retire," he says. "I have to work."

Pratt's story is going to become more familiar very soon. For more than 30 million low-wage workers like him, the day they reach retirement age will be just another day at the office—cleaning it, guarding it, or washing dishes in its cafeteria. This is not the dignified retirement after a long life of honest work depicted in such movies as *On Golden Pond*. In fact, for more and more Americans, it's no retirement at all.

Of the 36.3 million Americans over age 65 today, 3.6 million, or 10 percent, live below the federal poverty level for a single-person household of $9,570 in annual income. The poverty rates for women and minorities are double that or worse. Unmarried women living alone have a rate of 20 percent. (Many women earn less than men during their lives and work part time or leave the work force intermittently to attend to family responsibilities, and are thus less likely to participate in pension plans.) In 2004, nearly one-quarter of elderly African Americans and one-fifth of elderly Hispanics lived in poverty. And these numbers are calculated according to the federal government's poverty line figure, which the Economic Policy Institute, a nonprofit think tank , says is a gross underestimate of what is actually required for a person to get by. It's not surpris-

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ing that the Bureau of Labor Statistics reports that 5.2 million Americans over 65 are still working.

The U.S. retirement system has been compared to a three-legged stool, each leg essential: Social Security first, of course; then private pensions from employers; then private savings. At the moment, two of these legs are collapsing.

During the postwar economic boom of the 1950s, companies competing for workers and responding to union demands for secure retirement began to offer private pension plans. Since 1970, the average participation rate in such plans has hovered around 50 percent of the work force. But that number is misleading. Employers decide whether they will provide private pension plans and who will get them. The resulting choices have heavily skewed coverage toward workers with the highest incomes.

The Congressional Research Service reports that 75 percent of workers in the highest quartile of income are offered a pension plan and nearly all of those participate. Low-wage workers, who make around $9 per hour (the official poverty level) or less, are about half as likely to be offered a pension plan. They are also the least likely of all workers to take part in a private plan. CRS says that of workers earning in the lowest fourth of the income range, only 41 percent are offered a private retirement plan and only 29 percent participate. In other words, the workers least likely to have other resources are also those least likely to have a pension. These low-wage workers also can't afford to contribute to independent retirement accounts—which confer tax advantages and aren't dependent upon employment. Only eight percent of families with incomes below $20,000 own an IRA.

For these workers, the situation is worsening. During most of the late 20th century, employers offered a "defined-benefit plan," under which retirees received a fixed monthly sum based on their length of service and income. The new norm is "defined contribution," 401(k)-type plans, in which wage earners get a tax break for putting their own money, up to a certain percentage of their income, into an account they can draw on after retirement; the size of the benefit will vary depending on the performance of the invested savings. Most employers match a percentage of the employee contribution up to a maximum level of worker's earnings. But even given this incentive, the money to participate is something that low-wage workers just don't have.

Eighty-year-old McDonald's employee Angela DiNoto wields a broom and dustpan at a fast-food restaurant in Eastpointe, Michigan, where she works full time.

Employers prefer 401(k)-type plans. Matching workers' contributions is only an option, and some companies choose not to do so. The number of workers covered by these 401(k)-type plans rose from 14.4 million in 1980 to 59.9 million in 2000. Meanwhile, the number of private-sector workers covered by defined-benefit plans has plummeted to one in five. This dramatic shift widens the already great divide between the haves and have-nots in retirement.

Linda Stevens was married for 15 years before her divorce five years ago. Her ex-husband paid child support and alimony for two years, but then he was injured in a construction accident and was unable to work. Now Stevens has to rely on her earnings alone. Stevens used to work as a lunch supervisor at a Flint, Michigan, public school and as a supermarket cashier late into the evening. Yet the $5.50 an hour she earned from the school and the $5.00 she made as a cashier just weren't enough to support her and her daughter, Sharon. So from January through April, she worked from 4 to 10 PM as a receptionist at the tax-preparation company H&R Block, where she earned $6.50 per hour. She was exhausted all the time and saw her daughter only early in the morning and on weekends. She worked more than 40 hours a week, and not one of her three jobs offered health care, sick leave, vacation time, or a retirement plan.

Stevens recently moved to a full-time position at the supermarket and got a raise—to $6.25 per hour. She also qualified for the health plan, which costs her $68 a month. But she has had to keep her second job to make ends meet, and she has no savings of any kind. "I want my daughter to have a future, go to college, have the opportunities I didn't have," she says. "But it is hard when you can't save for the future."

Millions of Americans are like Linda Stevens, only scraping by in their working lives and unable to save for retirement. CRS says that less than five percent of low-wage workers' retirement income is from savings. Their rate of savings is the lowest, but middle-income Americans are also having trouble saving. Wages remain stagnant as the cost of living rises steadily. Consumer debt is growing, and assets such as houses tend to be mortgaged to the hilt. For too many Americans, the savings leg of the retirement stool just isn't there.

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With their pensions disappearing and their savings minimal, most Americans can be sure only of receiving Social Security income once they retire. But that won't be enough to live on either, because it was never intended to be. The United States deliberately created the Social Security system during the Great Depression to provide only a bare-bones level of support. By the 1950s, everyone assumed that personal savings and employer pensions would be available to supplement their Social Security. Yet today, for nearly one-quarter of Social Security recipients, it is their sole source of income. A larger number of the elderly—39 percent—rely on Social Security for 90 percent of their retirement income.

The average benefit in 2005 was around $12,000. But even with Supplemental Security Income, which provides additional money to workers over 65 with the greatest need, low-wage workers like Stevens and Pratt will receive something closer to $7,000 or $8,000 a year—less than that bare-bones federal poverty level of $9,570. For those in the bottom 20 percent of wage earners, Social Security replaces only 55 percent of a couple's income. Most experts agree that it takes 75 percent to 85 percent of workers' incomes to maintain their pre-retirement standard of living.

In her twenties, Ethel Roberts left her native Birmingham, Alabama, and came to Washington, D.C., to find work. After a succession of jobs caring for the elderly, she married and stayed home to raise her two children. Now divorced, Roberts works nights at the Christian Community Group Home, taking care of eight elderly residents. Starting at 11 PM, she helps them to the bathroom, gives them medicines, and responds to their nocturnal emergencies. In the morning, she wakes and dresses them. It can be difficult work. "Standing up all the time is hard on your legs," she says. On Sundays, she brings some of the residents to church with her. "They like that," she says. After work, Roberts visits a friend who has Alzheimer's disease, just to help out.

For this work, Roberts earns $8.50 per hour, less than poverty wages. She is 64 years old. "I can't retire now," she says. "Maybe I could do it in my seventies or eighties." When she starts receiving Social Security next year, she will get around $500 a month, but her apartment rent is $390 a month and food expenses run at least another $100. She can't afford a telephone. "It would be nice to be able to visit my brother in Chicago," she says, "but I just don't have the money."

The reality is that most retirement funds go to people who already have a cushion. The top 40 percent of American wage earners receive more than 70 percent of the pension wealth. To add insult to injury, Americans who aren't offered pension plans or can't afford to contribute to one still end up subsidizing their richer fellow citizens. Americans in pension plans receive $70 billion to $80 billion in government subsidies through exclusions in the tax code. Most of these go to families earning more than $100,000 a year.

With the rising costs of housing, heating, fuel, transportation, and especially health care (Medicare covers only some of it), it's no wonder many low-wage earners must continue to work. But it is one thing to keep working as a lawyer. It is quite another to continue sweeping floors and washing dishes, lifting and turning other elderly people as a nursing home aide, or standing all day at a supermarket cashier's station. Low-wage jobs are the most hazardous in our economy. Nursing aides, home health-care workers, and orderlies suffer more back injuries than all construction workers combined.

If aging low-income workers like Roberts have to rely on their meager Social Security benefits alone, the conclusion to their lives is likely to be grim. They are four times more likely than the nonpoor to have their utilities cut off. Those who face skipping meals or being unable to pay the rent

Marvin Wilson, 94, walks near the house where he has lived alone for the past 15 years in order to survey the damage a tornado did to his home town of Spencer, South Dakota. For Wilson and many other others like him, old age is marked at least as much by isolation as by poverty.

could consider moving in with their children, yet many don't have that option. Their own children often face the same economic challenges they do.

The grim truth is that low-wage workers may not be the only ones to weather a harsh old age. As more and more employers shift to 401(k) plans, middle-class Americans may also come up short. The government reports that only 39 percent of families with incomes between $25,000 and $49,000 participate in a 401(k) or defined-contribution plan. Americans who do have plans aren't putting enough into them: The median amount of money in a 401(k) plan for individuals ages 55 to 64 is only $23,000. It will require savings of $200,000 to $300,000, in *addition* to Social Security, for the average American to have a secure retirement, according to Alicia Munnell, director of the Center for Retirement Research at Boston College.

Many middle-income Americans believe that their family homes and the equity they've gained from years of rising housing prices are their retirement security blanket. But those who have refinanced their houses—for instance, to pay for their children's education—could be making mortgage payments well into retirement. Selling the house to capture all of the equity requires a stable housing market and the availability of affordable housing elsewhere. Economists have grown hoarse warning that the housing market is a bubble soon to burst.

Meanwhile, aging baby boomers, whether low wage or middle income, will confront escalating health-care costs. Their needs are growing just as employers hastily retreat from their promises of guaranteeing health care for retirees, and Medicare copayments keep ratcheting up. In a very few years, all but the most affluent Americans may need to continue working when they reach what should have been retirement age.

If we are to preserve the American dream of a dignified retirement for all Americans, we need to change the system. Social Security is an efficient vehicle for providing guaranteed benefits to retirees of every income level, ensuring that virtually all American workers will have some basic income when they retire. Social Security can and should be strengthened and improved to fulfill its promise, especially for low- and moderate-income workers.

Private pensions are also an integral part of the retirement system. We should establish incentives for companies to maintain their pension plans and to ensure they keep their promises to their workers. We could promote new hybrid plans that combine the best of defined-benefit plans—employer-paid guaranteed payments that can't be outlived—with the most appealing components of 401(k) plans, including their portability and simplicity. If voluntary participation doesn't work, we should explore mandatory arrangements, perhaps requiring employers to provide or participate in a hybrid defined-benefit plan or allocate a certain percentage of every worker's pay to a universal 401(k).

One sure-fire way of bringing in more low-paid workers would be to reverse the matching-funds idea: Require employers to contribute to a 401(k) for every worker first, then allow employees to match the amount if they can. To help lower-wage workers contribute, those earning below a certain level might get tax credits for their deposits.

These suggestions are just a beginning. What is important is that all Americans have enough retirement income to live out their last years in dignity. As Hubert Humphrey said in 1977, "The moral test of government is how that government treats those who are in the dawn of life—the children; those who are in the twilight of life—the elderly; and those in the shadows of life—the sick, the needy, and the handicapped." At the moment, our government—and those of us who elect it—are failing that moral test. For now, William Pratt remains on the job. ■