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PENSIONS: WHY ARE THE FUNDS SO BIG, AND THE BENEFITS SO SMALL?

by Teresa Ghilarducci

The major pension concern of workers is the amount of benefits. That was true when the first pension plan was negotiated and it is still true today. Therefore, any plan or program to increase union influence or control over pension fund investments must deal with these questions: First, is it possible to deliver adequate benefits by following the traditional policy of bargaining for promises to pay in the future, and then allowing someone else to manage the funds required to meet the promises? Second, who gets most of the benefits from U.S. pension fund capital which now totals $860 billion? Third, what proportion of pension fund capital can potentially be influenced by unions?

A 1953 handbook entitled **Pension Plans Under Collective Bargaining,** was published by the AFL-CIO and coauthored by its current President, Lane Kirkland. It served as a guide to affiliated unions in their pension negotiations. It ended with the following suggestions: "Labor should have an equal voice in the administration of the pension program, and the investments of the pension funds should be in **soundly conceived projects to benefit workers before they retire as well as after they retire.**" Labor's concern of the '50s about investments is still labor's current concern.

Pension Benefits: Who Gets Them, and How Much? Only the more fortunate members of the retired labor force get private pensions--workers with long tenure with a single employer, or with special skills, or with earnings which have consistently improved or with job opportunities that have been continuous over long time periods. Less than 25% of all male retirees and only 12% of female retirees receive an employer-provided pension benefit. And many minority, women, and middle income workers (union and non-union) have never been covered by any type of plan on their jobs, except for Social Security. Only 28% of black male workers are covered by plans, compared to 50% of their white counterparts. Only 7% of black working women are covered compared to 24% of white working women.

The average pension benefit is only $175 per month--but the average hides both the large benefits (President Reagan receives about $4,200 monthly from California's PERS), and the low survivors' benefits (widows of covered workers average only $25-$50 per month). Further, nearly all collectively bargained plans have no provisions for cost of living adjustments of retirees' benefits. Thus, even with moderate levels of inflation, a given benefit will decline to less than half its original value after only eight years of retirement.

The situation isn't getting any better for most workers. Coverage under all private pension plans has not improved significantly since 1974, and many plans are endangered by the current recession. Even steel, rubber, and auto workers, who were once considered to have the best negotiated plans, are now losing their jobs as their industries fail. The financial stability of their "Cadillac plans" has come to be endangered.

In all of our negotiated pension plan developments over the past 30 years, very few workers have been able to point with pride to those "soundly conceived projects to benefit workers before they retire as well as after they retire"--which were supposed to result from the careful investment of the workers' pension fund contributions.

Who Manages the Pension Funds? Most pension fund capital is managed by insurance companies, banks, and consulting firms; the top 100 firms manage approximately two-thirds of more than $800 billion in pension fund capital. The investment decisions are made by a small community of experts who function according to principles which are supposed to be objective. But their principles permit the private sector plan experts to be preoccupied with investing in the stocks and bonds of the **Fortune** 500 corporations. And their principles have long permitted the public sector plan experts to provide all of industry with a cheap source of capital, through excessive reliance on bonds. In both cases, investors operate according to their own idiosyncratic customs and traditions, and justify many

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decisions with the casual statement that "this is the way it has always been done." The same kind of past practice primarily defines ERISA's "prudent man" rule, which guides legal approval of any private sector plan investment.

Why does it matter who manages the funds and how they are managed? If we consider all private pension plans in the country as a collective total, then two-thirds of the money to be paid as benefits must come from investments--because only one-third will come from direct employer or worker contributions. Unfortunately, the average rate of return for all pension fund investments in the last decade did not even equal the rate of inflation. But that did not affect the rate of return to the administrators and the consultants and the investment managers of the private plans: they took out 16-20% for their "administrative costs" (compared to 2-3% for the cost of administering the entire Social Security system).

How Much Pension Capital Can Labor Influence? The following is the 1979 breakdown (from the 1980 AFL-CIO study on pension investments):

Total Public and Private Funds	Percent of Total		
860 billion (current total)	100%		
Public Sector Plans	45%		
Federal (have to be invested in government bonds)		13%	
State and Local		32%	
Private Sector Plans	54%		
Collectively bargained (jointly-trusteed plans)		42%	(16%)
Not collectively bargained		12%	

The collectively bargained plans have 42% of total pension funds potentially subject to union influence--although only 26% of these plans have joint labor and management trustees. Of course some portion of all pension funds (about two-thirds) is in fixed maturity assets, and can't be turned over very quickly. However, over the next twenty years nearly every investment in these collectively bargained plans could be subject to labor influence. Further, the investments of state and local pension funds are subject to union influence, sometimes directly through elected Board representatives, and sometimes indirectly through the political process. (LCR will examine labor influence in public sector funds in forthcoming issues.)

Therefore, out of the total U.S. pension fund pool, the portion susceptible to union influence in the next twenty years is 42% (collectively bargained plans) plus 32% (state and local plans), or 74%. The amounts that can theoretically be influenced by labor today are the liquid assets due to be invested this year, or approximately one-third of this 74%, or approximately $212 billion.

Conclusion. The labor movement needs to redefine what constitutes a prudent investment, particularly to specify what can be "soundly conceived to benefit workers before they retire as well as after they retire." A current union policy that opts to bargain for future benefit promises and declines to assert responsibility for investment policy simply becomes meaningless when benefits continue to decline in real terms, and when funds are continually invested without regard to the needs and interests of plan participants.

-- Teresa Ghilarducci