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Disappearing Pensions Hurt U.S. Economy as well as Workers

Retirement has taken a back seat to corporate profitability for more than 40 years as the United States has embraced the reduction of pensions, and now the U.S. economy is paying the price with lowered productivity.

Without pensions, older workers are being forced to work longer hours and stay in the workforce longer, and that means they're squeezing out some of the most productive workers of all, known as core workers, according to a study by the University of Paris-Sorbonne.

The drop in U.S. pensions also contributed to the rising gap between the rich and poor, and that inequality led in part to the Great Recession of 2008-2009, said French economist Thomas Piketty at a conference this month in Paris. By eliminating pensions, the U.S. has moved closer to a capitalist economy where companies no longer rely on pensions to attract workers and also don't have a safety net where companies and workers are taxed to raise money for their pensions, as is the case in most European countries. That change has led to increased inequality, because low- and middle-class workers cannot afford pensions, whereas the wealthy can.

Riding on the coattails of abuses by several public and private pension plans, the Employee Retirement Income Security Act (ERISA) was sold to the American public in 1974 as a way of protecting people's pensions by ensuring that they would be made secure and backed by the federal government.

It worked, but not as the American public thought it would. It did protect pensions, but it also made them costlier for employers. As soon as the ink was dry on ERISA, Corporate America began eliminating pensions from its balance sheets. From 1980 through 2015, the proportion of private wage and salary workers participating in defined benefit pension plans fell from 38% to 15%, according to the U.S. Bureau of Labor Statistics. DB plans are the traditional pension plans that your father or grandfather's generation were accustomed to, but now they're as rare as a gold watch at retirement.

The U.S. government later created the 401(k) in 1978, but it was never expected to support workers through retirement.

What has the effect been on retirees?

Currently, about 43% of private workers take part in their 401(k) or other defined contribution plan, according to the U.S. Bureau of Labor Statistics. That isn't enough to support most of the retirees throughout their retirement. Through the end of 2015, the average 401(k) balance at Fidelity Investments, one of the country's biggest 401(k) providers, was just $91,300 — a paltry amount compared with what experts say you would need to save for retirement. [An Ohio public defined benefit plan will pay out approximately $500,000 over 23 years of retirement for a $94,000 employee contribution.]

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