

## Retirement Security

The United Food and Commercial Workers International Union represents 1.3 million workers in North America, primarily in the grocery, retail, and meatpacking industries.

Retirement security of American workers is in grave danger. The deep economic crisis of 2008 has exposed the weakness inherent in defined contribution plans as individual account balances have plummeted in value with no safety net. To make matters worse, scores of companies have already announced the suspension of matching 401(k) contributions as one of the many painful consequences of the economic recession.

Defined benefit plans, sponsored by individual employers as well as joint labor-management multiemployer plans, have experienced serious erosion in funding status in 2008 that likely will lead to retirement benefit reductions, higher than expected new employer contributions and, undoubtedly, more plan terminations. These emerging funding problems are magnified in light of new funding requirements mandated by the Pension Protection Act (PPA) of 2006. While the UFCW supported the general aims of this legislation, it is clear that unprecedented economic turmoil in 2008 threatens to undermine the defined benefit retirement system and both immediate relief and long term revisions to PPA are necessary. This is the second round of devastating investment failures in this decade. The first, from 2000 to 2002, contributed to the movement away from secure defined benefit plans to defined contribution plans where investment risk is borne by plan participants rather than plan sponsors. Unless economic recovery starts soon, there may be a broader reduction in all types of private retirement plans.

Moreover, half the workforce is shut out of the private retirement system and heavily relies on the soundness of the Social Security program. The long-term stability of this great public program must be addressed for current and future retirees without undermining the retirement income floor relied on by millions of American workers.

Therefore, the UFCW offers the following proposals on retirement policy.

1. Secure the financial viability of Social Security for the next 75 years through a combination of tax and benefit changes, including raising the cap on taxable income. Increase trust and confidence in the Social Security system among the younger generations. Exempt the first \$15,000 of wage income from the Social Security payroll tax for workers earning up to \$50,000. **Goal:** The foundation of America's retirement system must be solidified, and the regressive payroll tax adjusted for low wage workers.
2. Develop and fund a financial rescue plan to secure the legacy costs of under-funded defined benefit pension plans to be administered by the Pension Benefit Guaranty Corporation. The cost of this program will be shared equally between the federal government, employers, and a tax on financial transactions. Encourage sponsors of defined benefit pension plans—through various tax and regulatory incentives—to transform traditional defined benefit plans into



hybrid defined benefit plans that reduce the risk of future under-funding. **Goal:** The defined benefit system covering 40 million Americans has been badly damaged by the two financial crises since 2000 and needs financial support and reform, including measures to reform the Pension Protection Act to strengthen defined benefit pension plans.

3. Legislate improvements in the defined contribution system (e.g. 401(k) plans) that add the positive features of defined benefit pension plans and prohibits current 401(k) features such as loan provisions that are contrary to the purpose of building retirement income. In order to maintain tax qualification, defined contribution plans will require a minimum 5 percent of salary employer contribution, an annuity benefit, a federal guarantee that insures employee and employer contributions, and an automatic trustee investment default that participants will have to affirmatively opt out of in order to control their investment decisions. **Goal:** The current defined contribution plan system provides inadequate benefits and shifts too many risks to plan participants. Without these changes, defined contribution plans cannot be expected to play a major role in the future American retirement system.
4. Legislate a retirement universal coverage requirement that mandates a minimum contribution on a “play or pay” basis for all workers not already covered by a qualified defined benefit or defined contribution plan. The pay option will be administered by the Social Security Administration as a supplemental benefit to Social Security. **Goal:** Improve the retirement income of the 50 percent of the workforce that has no access to the private retirement system.
5. Create a cabinet level department for retirement policy that combines all regulatory and policy authority for pensions. **Goal:** This reorganization will foster regulatory reform and simplification that will reduce the barriers to employers sponsoring pension plans. This approach will also respond to the changing demographics of America with the aging of the workforce and prepare policy prescriptions prioritizing the changing needs of society and the workplace, over tax-driven policy.