SUSAN TOMPOR: Save more to fill pension gap

401(k)s critical for autoworkers caught in crunch

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At age 39, Chris Oesterling has decades to go until retirement.

But Oesterling, who works in engineering at GM's Renaissance Center headquarters in Detroit, knows he's going to need a better game plan than banking on a big pension check from **General Motors Corp**., which is trimming payouts for future retirees.

"It's not good," said Oesterling, who lives in Troy.

Talk about an unexpected pension pinch. A reality check is due for thousands of salaried auto industry workers and workers elsewhere who once thought they had a lock on solid retirement benefits.

As companies revamp their retirement rules, employees must beef up their own savings and plan for a more uncertain financial future.

Overall, many workers haven't a clue as to how much money they're losing, as companies dilute pension benefits, freeze pension plans and roll out buyout packages.

"I'm surprised by the amount that really don't know how it affects them," Oesterling said.

Many workers are focused on holding onto their jobs -- not dwelling on pension changes. The concerns about layoffs and job cuts trump worrying about getting smaller pension checks years down the road. Several salaried GM workers in Detroit and Warren declined to talk to the Free Press about their pension concerns. Many said GM discourages its salaried employees from talking to the media.

Yet workers must realize that traditional pensions, where companies promise a set payout to retirees, are fading fast.

"It's fair to say that defined benefit plans are not a growth industry," said Olivia Mitchell, executive director of the Pension Research Council at the Wharton School of the University of Pennsylvania.

More than 2,700, or 9.4%, of 29,000 traditional pension plans have stopped building additional pension benefits for their workers and were frozen in 2003, the latest data available, according to an analysis by the Pension Benefit Guaranty Corp., which protects the retirement incomes of 44.1 million American workers in private-sector plans.

That means workers who stay with the company would get far less money if they retire in 10 years or more than they would have if the plan weren't frozen.

A hypothetical scenario

It is not a small financial issue, as pension benefits often build sizably in the last few years of a career because of the way pension formulas are structured. That means a worker stands to lose a lot of money if his or her pension is frozen in the few years before retirement.

Assume a worker began participating in a defined benefit plan at a company at age 30, and the plan is frozen when the worker is 50 and earning $70,000 a year.

Jack VanDerhei, a Temple University professor and a fellow at the Employee Benefit Research Institute, concluded that worker would need roughly $22,000 extra a year to cover that pension gap, or the amount of money lost due to the plan being frozen.

His calculations assume that the worker would have gotten nearly $36,000 a year beginning at age 65 if the plan had not been frozen.

The benefits would drop to $13,500 because the plan was frozen.

So how much would a worker need in extra savings to fill that pension gap of $22,000 a year?

VanDerhei calculated that a worker would have to have nearly $300,000 extra in his or her 401(k). That money could be used to purchase an immediate annuity at age 65. That annuity would guarantee a payment of more than $1,800 a month.

Just how individual workers are affected when a pension is frozen varies significantly, based on the worker's age when the plan is frozen, how much he or she has built up in benefits and how the plan calculates benefits.

Not enough in the bank

In some cases, employers may freeze plans and then boost the contributions they make to 401(k)s.

"They're putting it in the employee's lap -- and it's up to that employee to take the most advantage of that 401(k)," said David Kudla, CEO for **Mainstay Capital Management** in Grand Blanc, whose clients include autoworkers. What's worse: Many employees aren't saving enough.

Nearly half of workers age 55 and older said they and their spouses had accumulated less than $50,000 in retirement savings, according to the Retirement Confidence Survey issued in April. The survey is sponsored by the Employee Benefits Research Institute and **Mathew Greenwald & Associates**, a survey research firm, and underwritten by other organizations.

Another statistic: The median 401(k) participant with the **Vanguard Group** had a 401(k) balance of $24,000 and an annual income of $59,000. So a huge chunk of workers had not even saved six months of salary toward their own retirement. The median means that half of the 401(k) participants had more than $24,000 saved and half had less.

John J. Brennan, Vanguard chairman and CEO, told a group of business journalists in Minneapolis last week the savings is a pittance when it comes to retirement.

But he also expressed optimism, noting that the median 401(k) participant is 44 years old and still has another two decades to work and save money before retiring.

Brennan argues that the shift toward defined-contribution retirement plans -- such as 401(k) plans -- is a positive development. It's what he called: "Consumer-driven retirement planning."

And he noted that many workers never did get "gold-plated" pension benefits -- especially if they didn't work for decades for a major business.

The median private pension was $6,700 a year in 2004, according to data from the Congressional Research Service.

Big companies, big changes

What complicates matters for individuals, though, is that many big-name companies in Michigan have made major changes recently. And many workers had planned on a larger pension.

Last month, **Delphi Corp**. said that as part of its strategic plan to emerge from Chapter 11 bankruptcy, it wants to freeze the hourly U.S. pension plan as of Oct. 1.

Delphi also wants to freeze the U.S. salaried pension plan as of Jan. 1, 2007.

Last month, GM said it is freezing its cash-balance pension plan for its newer salaried workers and going to a less-costly program involving 401(k) plans. Other salaried workers will remain with a traditional pension, but get reduced benefits under a new formula.

And while the pension plan for hourly GM workers was not frozen, there's growing concern that GM will demand pension concessions from the **United Auto Workers** in contract talks in 2007.

For some, retirement is coming sooner than expected.

"I sort of had a plan where I was going to retire at age 62 in any case," said Mike Glover, 59.

Now, he'll retire in June and take advantage of a $35,000 buyout GM is offering.

Glover, who works for the GM Powertrain Plant in Flint, expects to get a pension of $2,900 a month. And after 40 years with GM, Glover says he's still loyal to the automaker.

"I've never missed a meal or a mortgage payment," Glover said.

The UAW hourly worker has been saving 15% of his pay into his 401(k) plan since 1985. He's been putting another 10% into a credit union.

His wife, Nancy, plans to work another six years at an optometrist's office. He also has a job where he'll teach children skiing in the winter.

"I know I'll be OK when I retire, unless something very bad happens to the stock market and then we're all in trouble," Glover said.

But he also knows many of the people he works with don't save much.

"I don't think people are changing their spending habits very much," Glover said.

VanDerhei's theory is that many people are overly optimistic about retirement because they're doing better than their parents did while working, and they see their parents living well in retirement.

"If you're making more money than Mom and Dad when they were working, you're usually going to have the expectation that you're going to be doing OK also," he said.

But that might not be true.

VanDerhei said younger workers can overcome the loss from no pension or a frozen pension if they start saving early and consistently.

For folks in their 40s, the retirement picture will depend even more on how much they increase their savings -- and how well their investments do.

Those in their 50s may have to work longer -- or pick up more part-time work in retirement.

But all workers need to save more to try to cover the gap.

"To ignore it is just going to get you in more and more trouble," VanDerhei said.

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