1906-2005 99 YEARS Daily Southtown

Social Security, pension concerns grate on work force

Sunday, July 10, 2005

By Danny Smith
Special to the Daily Southtown

Art Hannus is a jovial man, a "real character" we Chicagoans would say. He's animated in his speech, offering infectious chuckles, and he's not much for silence. Yet today, Hannus, who runs Alsip-based American Heritage Protective Services, has some fairly pointed questions.

"Why can't I be in control of my own destiny?" he says.

A strong free-market advocate, Hannus loves getting in the ring of the Social Security discussion and throwing his punches. Still, he'll tell you he's had enough of being involved in a system that doesn't reap fair rewards in return for his lifelong investment.

"The only person who benefits from this system is the one who never put much in to begin with," Hannus says of Social Security.

"If I thought (Social Security) was good for the people, then I'd be all for it. But the simple fact is that it's not."

Across the nation, similar words are echoed countless times.

The downward spiral of the pension world perhaps began with Enron and WorldCom a few years back. There precedent was set — albeit as a result of unethical dealings — that the pension system wasn't as secure as we may have thought.

In recent weeks, United Airlines has cut pensions of its workers in attempts to pull itself out of bankruptcy. The airline giant's announcement was followed by Gov. Rod Blagojevich and the state's politicians releasing word that pensions of state workers would be withheld for one year in attempts to relieve Illinois' considerable debt.

Pensions, it emerges clearly in today's society, are no longer the sacred ground they once were — major corporations and even states dipping into their employees' futures in attempts to meet today's demands. Couple the now "touchable" character of pensions with the uncertain future of Social Security, the one Hannus and many others scream against, and a culture of confusion results. Workers stand unsure of what will be there come retirement time.

So what has led us here? What has brought these topics — pensions and Social Security — to the forefront of the nation's consciousness? Where do we stand today? And, better yet, what can we do for tomorrow?

For years, diversification has been the signature sound of the investment world's bell tower. Now, more than ever in our history, it seems diversification is a must.

Founded in 1935 amid the Great Depression by President Franklin D. Roosevelt, the Social Security system sought to offer protection for families in times of aging and retirement. In later decades, additional programs, such as survivors of deceased and disability programs, were added.

"Social Security was created in the midst of the Great Depression, and it was created to deal with that specific era. And it was successful in meeting those needs as it cut the poverty rate from 35 percent to 11 percent," says Tina Milhouse, a Chicago-based public affairs specialist for the Social Security Administration. "It's always been a pay-as-you-go program, and for the program to continue, changes will have to be made."

In 1960, five individuals were paying in for every one recipient of Social Security. The ratio is now 3-to-1, and by 2030 the anticipated ratio will be 2-to-1. A greater life expectancy has more people drawing benefits with fewer people putting in than ever before. Forecasts suggest that in 2070, Social Security will begin paying out more than it receives in taxes.

"What it really boils down to is a change in people putting in and people receiving. When the ratio changes, it requires changes in the program to continue," Milhouse said.

From the Social Security Administration's perspective, it's a relatively clear-cut issue. Changes will have to be made, and that's nothing new.

And so do we fault the system or the general public's misunderstanding of the Social Security program? By the administration's own admission, Social Security is not a sole means of retirement, but rather a supplement to one's own savings and investments.

"It's a three-legged stool," says Milhouse, "with Social Security as one leg, retirement with employers as another, and private savings as the third. We're out there now encouraging saving and urging people to establish other sources of saving. Too many older Americans rely on Social Security as their main source of income."

And yet, a drying well isn't what has folks like Art Hannus fuming.

"Many people thought they'd retire securely on Social Security and it's just not true. You don't get a decent return on your money," Hannus says.

Hannus provides the scenario of two individuals — one with a $30,000 income and another who earns $90,000. The latter pays three times as much in Social Security, Hannus says, while only receiving 115 percent of what he put in compared to the $30,000 income individual.

"That's my major issue," Hannus says. "We're not in control of our own money. We're not reaping the kind of benefits we otherwise could."

Dennis Canalini, an associate vice president and financial adviser with Morgan Stanley, sees weight in Hannus' claim.

"The average investor can take the money one's putting into Social Security and by putting it in even conservative methods such as treasury bonds reap greater benefits," he says. "With something like treasury bonds, you're even investing back in the government. You can have your cake and eat it, too."

In fairness to the Social Security Administration, Canalini said, no one could have predicted that people would be living longer and having less children.

"If you read the Social Security statement you receive near your birthday each year, you'll see that they're very upfront about things."

The problem then seems to reside in a crucial failure to recognize the trend early enough and respond with a proactive approach.

"We can round up suspects on both sides of the aisle," says Paul Litteau, an Arizona-based financial consultant and educator. "Back in the 1960s (Lyndon Johnson) had the brilliant idea of using the Social Security surplus and rolling it into the overall budget. Then, years later, Nixon had the brilliant idea of expanding entitlements beyond the original premise.

"We should have absolutely recognized what the future would bring. An experienced actuary would look at our program now and say it's nuts. But we're reacting to it now and it's better late than never. There's some forward thinkers on both sides of the aisle that are seeking to correct the problem and offer reasonable alternatives."

The erosion of pension funds, meanwhile, poses a new and more disconcerting set of issues. How is it that money we've put in over years can just be pulled from under us? Doesn't the employee have any protection, any rights?

"We're all getting better at understanding how pensions work," Litteau says. "The trustees of a pension fund in a given organization look at ways to work in the best interest of the employee — and they have a fiduciary obligation to do so or face litigation.

"With a company such as United Airlines, they're bankrupt, they can't deliver on those pension promises. What choice do they have, what choice does the employee have? Yes, there's frustration, but it's the economic reality."

Now what? That's what people like Hannus wonder these days. Business owners and employees across the Southland unsure about what they will be able to rely on when retirement hits.

"It's save and diversify; that's the simple answer to very complex questions," Litteau says. "Keep yourself informed and know where your money is going, make sure the union, if you have one, is acting in your best interest. People need to take the trouble to educate themselves.

"As far as Social Security is concerned, keep yourself informed. Don't buy either side's oversimplified arguments; it's too much hyperbole."

This story originally appeared in Chicago Southland Business, a publication of the Chicago Southland Chamber of Commerce.