The Real Reason the Investor Class Hates Pensions

By DAVID WEBBER, New York Times MARCH 5, 2018

No issue in America today better illustrates the divergent interests of working Americans and the 1 percent than pension reform. Substantial empirical evidence shows that America's favored retirement vehicle — the 401(k), recently renounced by its own inventors — is grossly inadequate and will leave tens of millions of Americans with insufficient retirement assets. And yet states and cities are busy converting traditional pensions into these failing 401(k)s or equivalents, to the great benefit of money managers and the finance class.

Advocates of pension "reform" — which really means cutting or eliminating traditional pension funds — will tell you that such funds are a big drain on state and local budgets, since, as defined-benefit programs, they are obligated to pay workers a defined amount in their retirement. But that's largely a question of political priorities; underfunded pensions are the result of, well, decades of underfunding pensions. The real reason for the attack on pensions goes deeper, and exposes the great and growing rift between America's economic elite and everyone else.

Consider how we 401(k) holders behave as investors. How many of us thought to sue Wells Fargo after the Consumer Financial Protection Bureau revealed that the bank had created millions of fake credit card and bank accounts? Or to push our fund managers to do so for us? How many of us call up our fund managers after a quarter, a year or a decade in which we underperformed the Standard & Poor's 500-stock index to renegotiate our fees? Or even to switch managers? How many of us even know how our funds performed relative to the S.&P. 500?

The answer to all of these questions is a number very close to zero. We 401(k) holders are the world's ideal source of capital. We let ourselves be charged high fees that we do not understand, we accept poor returns quarter after quarter, we never sue to enforce our rights, we never vote as shareholders and we never tell our investment managers how we think they ought to vote. We are beyond passive; we are supine.

At bottom, the problem is structural. We are to our investees and investment managers what nonunionized, "right to work" workers are to their employers: alone and devoid of leverage to negotiate. That stands in sharp contrast to traditional pensions, which, like unions, are collective and centrally managed.

For example, the nation's largest traditional pension, the California Public Employees' Retirement System, known as Calpers, has 1.9 million members and over $300 billion in assets. When it calls up an investment manager to complain about performance, or to dump that manager, or when it calls a lawyer to sue for fraud, that catches the attention of corporate managers, of hedge funds, of private equity funds. That's why they succeed where we fail. All of us benefit from their successes, which raise the value of companies we own.

Our mutual funds could do the same for us, if they wanted to, but they don't. Despite important recent gestures towards activism, they have trailed far behind pension fund activists, and will continue to do so. They don't want to challenge the compensation, reelection or legal judgment of the same corporate managers from whom they hope to win the right to manage our 401(k) money in the first place. Not true for public pension funds.

In just the past few years, pension funds (private pension funds have been almost completely eliminated) have radically reformed the role of shareholder opinion in executive compensation, successfully lobbying for the inclusion of "say-on-pay" votes in the Dodd-Frank financial reform legislation and for mandatory disclosure of the chief executive/worker pay ratio. Pensions have also played the most prominent role in vivifying corporate voting, long an oxymoron. Because of a campaign run by New York City's pension funds and others, hundreds of companies now offer significant, long-term shareholders a meaningful opportunity to put their own board candidates on a corporate ballot.

Pension funds have similarly backed the shift from plurality- to majority-voting rules, and they have pushed to destagger corporate boards so that the entire board is up for election every election cycle, rather than just one-third per cycle, a move that increases a board's accountability. Traditional pension funds have also brought almost all of the most successful shareholder lawsuits, from the suits against Enron and Worldcom to the one against Wells Fargo.

Nevertheless, almost everywhere we look, these pensions are under attack. Entities like the Koch brothers' Americans for Prosperity, the Laura and John Arnold Foundation (John Arnold made billions

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at Enron), the American Legislative Exchange Council and their allies are engaged in a multifaceted, multistate campaign to gut traditional pensions like Calpers.

This relentless, well-funded attack has taken every form of political advocacy available. It ranges from campaign contributions to ballot initiatives to model legislation to lobbying to lawsuits to financing academic and judicial conferences. One estimate suggests that Mr. Arnold's foundation alone has spent $50 million on this issue, an estimate Mr. Arnold vigorously disputes. The primary goal of the attack is to convert these traditional pensions into 401(k)s.

The justification is that these pensions are in crisis. The familiar claim is that states and municipalities face unsustainable pension obligations that will crowd out other government spending and lead to higher taxes. Therefore, traditional pensions, which guarantee retirement payments to workers — leaving states and cities on the hook — must be replaced by 401(k)s, which offer no such guarantee.

Though the mainstream media has mostly taken the crisis claim at face value, economists and actuaries debate its extent and even its existence. Since the Great Recession, 49 states have reformed pensions to make them more sustainable, increasing employee contributions and reducing benefits. Wherever one stands on the underfunding question, plenty of options short of converting pensions to 401(k)s exist, including ones that would preserve some collective shareholder voice. But these are rarely considered. Why?

We cannot understand the drive toward pension "reform" by looking only at the liability side of the balance sheet: how much we owe workers and what it will cost to pay them. We must look at the asset side, too: how these pensions invest their money, and their ability to exercise shareholder voice that the rest of us lack.

If the Kochs and their allies succeed in smashing and scattering these last remaining pension funds into millions of 401(k)s, they will do more than just undermine the retirement security of millions of Americans. They will silence their economic voice. The pension reform drive should be understood, at least in part, as a campaign of economic voter suppression. And it is coming, soon, to a jurisdiction near you, if it isn't there already.

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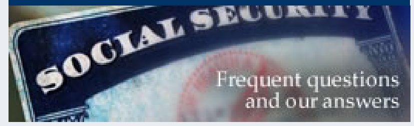

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« March »

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Fri, 2018/04/06 - 11:00am
Eastern MA

Fri, 2018/04/13 - 11:00am
Cape Cod

Fri, 2018/04/20 - 11:00am
Central MA

Fri, 2018/05/04 - 11:00am
North Shore

Fri, 2018/05/11 - 11:00am
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All Upcoming Events