Testimony
Of
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Subcommittee on Oversight and Investigations
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Members of the Subcommittee, my name is Norman Wernet. I appear before you as the State Director and Field Organizer for the Alliance for Retired Americans and on behalf of our Community Advocacy Network in this area, the Alliance for Senior Action. The Ohio Alliance has more than 250,000 members, consisting of union retirees and other activists dedicated to improving the quality of life for all older Americans. Our national Alliance has four million members throughout the country.

I greatly appreciate the opportunity to come before you today to testify regarding the state of retirement income security in Ohio. My purpose for appearing is as a showing of solidarity with retirees of Delphi in their fight for fair and equitable treatment and to highlight the ongoing pervasive weakening of retirement income security.

The case of Delphi's bankruptcy and settlement of the issues continues in the courts and will for some time. In the meantime the effects of this company's failure are playing out in the lives of the citizens in this valley.

The subcommittee's invitation asked for the context of the bankruptcy in Ohio's economy. According to the Labor Market Information statistics from the state of Ohio Jobs and Family Services, in 2001 the auto industry employed an average of 36,600 workers in vehicle manufacturing and 104,700 in manufacturing parts. In May of 2010, with some measure of recovery, Ohio employed 18,500 workers in vehicle manufacturing and assembly and 57,200 in the parts industry. This significant shrinkage by nearly half has been most apparent since 2008. The Delphi and GM bankruptcies are a significant part of this collapse.

The forced retirement of significant numbers of these workers, coupled with the 10% plus unemployment in the state, has created a major stress on their pension plans and precipitated the need for a further discussion of the issue before the committee.

The movement of Delphi workers/retirees pensions into the Pension Benefit Guaranty Corporation (PBGC) causes a significant strain on that agency and its well documented under funding. The most current data I could access indicates that 58,800 retirees in Ohio receive retirement income from the PBGC averaging $6,156 per year in 2008. Not exactly the "Life of Riley". If that is combined with the average Social Security benefit for retirees in Ohio of $12,953, retirees will live on the edge of poverty. Given the rising costs of health care, it will be impossible to remain independent and not further burden the public coffers.

The fiscal crisis caused by the manipulation and speculative gaming of the financial markets has certainly caused havoc in personal retirement savings and investments for retirees of Delphi and all workers and retirees in Ohio. Yes the market has recovered some. But as we have seen in the last weeks, those of us, especially retirees and those near retirement, who believe in investing in a market economy and partnering to build business have been left with less than confidence and a feeling we are once again being taken for a ride down a back street to be mugged.

This situation argues for strengthening financial regulations that protect citizen worker savings, pensions, and Social Security. Retirement has been encouraged and is expected in our economy as a way to create adequate space for younger workers and reinvigorate the American workforce and productivity among other things. We have traditionally urged workers to have personal savings and participate in a retirement plan beyond Social Security. Over the last thirty years we have seen an increasing weakening of all three legs of this stool.

The Delphi workers fighting for “top-off” of the standard pension payout from PBGC are asking for some measure of economic justice for the compensation they have earned through a life of work. To allow those who managed this company into bankruptcy to walk away with huge sums of money that guarantee their livelihood at the expense of the retirees is not just an injustice but also a structural weakening of the local economy. The recent study http://cfweb.cc.ysu.edu/psi/pdf%20files/publications/curs.ed.r.328.fa.9.09.pdf by Youngstown State University of the loss of pension by the salaried retirees alone will cost the area $58 million a year in economic losses.

Given this study, the cumulative effect of the ongoing losses of pension and savings income to retirees on this valley caused by the roiling of the financial markets and corporate restructurings since 1980, especially in the steel industry, is astronomical. Had those losses been stemmed, the older citizens in this area and in the whole of Ohio would be more fiscally secure and less costly to the public budget. Ohio’s population over 60 is currently 17% and expected to grow over the next decade. Retirees want to age in place here in Ohio but their quality of life is dependent on the security of the income available.

The workforce retiring now has been through the high unemployment decade of the 1970’s, stagflation, wage price freezes, massive heavy industry restructuring, a downsizing in the 1980’s, and periods of unemployment as we proceeded to control inflation. It is also the generation that has spent enough as consumers to bring the economy out of the last several recessions. These workers have limited their pay demands and found ways to assist their employers to stay in business. The pay off has been in essence to have that life of work devalued in retirement.

Those of greatest risk of outliving their current retirement income are women. A study released in 2007 from the Institute for Women’s Policy Research showed median personal income for women in Ohio over the age of 65 to be $12,321 per year versus men at $20,959. I had a call from a woman who retired 20 years ago from GE in this valley inquiring about options and supplements to pay for supplemental Medicare insurance. Her premium for the supplement offered now exceeds her retirement income from her pension.

She wants to do the right thing and pay her bills but now, at 82, does not have enough income because her pension was lowered by a bankruptcy.

This is not an uncommon scenario and it is likely to be repeated in the bankruptcies of Forum Health and Denman Tire and as retirees of Republic Technologies, Inc and the 353+ companies based in Ohio that are now in PBGC.

The Alliance for Retired Americans has been all too aware of these developments and works to educate and advocate with organized groups of retirees and to develop a community dialogue on this issue. Several years ago we noted this trend in our briefing papers *Vanishing Pensions and Savings* and *Retiring Into Work*

The anger and frustration expressed in the written testimony of Elizabeth Knauf, President IUE-CWA Local 717 Retirees, is based in the dismissive way business, the courts, and various administrative agencies react to the economic displacement workers have to live through after a life of productive work. The lack of action to stop the ongoing, repetitive, and seemingly intentional devaluing of the production and value retirees added during their active years of work in the economy is a call to reform and actions that Congress can take.

What Congress Can Do

Immediately: Congress can support mechanisms that would make all Delphi retirees whole in the same manner as the “top-offs” in GM.

Immediately: Congress can pass H.R. 4677 and its companion S. 3033, The Protecting Employees and Retirees in Business Bankruptcies Act of 2010, that would bring a measure of equity to workers caught in the financial web of corporate gamesmanship or fiscal failure in bankruptcy.

Immediately: Congress can strengthen Social Security by:

Raising the payroll tax cap on Social Security taxes for the wealthiest Americans.

Freezing the estate tax at 2009 levels and apply those revenues to Social Security.

Putting people back to work in good-paying, American jobs.

Immediately: Enact legislation proposed by Senator Tom Harkin (D-IA), “The Wall Street Fair Share Act” (S. 2927), and Representative Peter DeFazio (D-OR), “Let Wall Street Pay for the Restoration of Main Street Act of 2009” (H.R. 4191). This legislation would place a modest tax on Wall Street financial speculation while leaving the vast majority of ordinary investors largely unaffected. All told, this modest tax of 0.25 percent would raise over $75 billion a year.

Congress could allow shareholders a greater voice and vote in corporate governance to reign in some of the executive excesses and engage a better conversation and dialogue about the practices of American businesses. We have structured business on the model of democracy, Congress can structure law to make that promise of democracy happen in our economic life…. building trust might actually build investment.

Congress could direct a revaluation of labor statistics accounting for the lost retirement compensation previously accounted as part of wage and benefits used for computing productivity and unit costs of production.

Congress can enact retirement security legislation that follows the principles adopted by the AFL-CIO :

Principles to Guide the Delivery of Retirement Income

- Retirement security should be based on mutual responsibility, with financing and risk allocated equitably among government, employers, and workers;

- Every full-career worker should have the opportunity to retire at 65 with at least 70 percent of his or her pre-retirement income;

- Retirement benefits should be portable;

- Defined contribution plans should be structured to serve the interest of workers and retirees, not those of their employers or Wall Street;

- Retirement plan participants should be represented in the governance of their plans.

Policies to Achieve Retirement Security for American Workers

- Strengthen Social Security: The bedrock of retirement security for America's working families is Social Security. While we successfully defeated the attempt to privatize Social Security in 2005, we must continue to fight all such efforts. Similarly, we must oppose attempts to switch public employee defined benefit pensions to defined contribution plans. Beyond this, we need to work for improvements in Social Security, at least to provide above poverty-level benefits for workers who put in a full career at low-wage jobs and to improve the retirement security of women.

- Ensure employer responsibility: All employers should be required to fund retirement benefits on top of Social Security, as an essential part of every worker's pay. The most effective and efficient way to do this is through a defined benefit pension plan. Private-sector employers who don't provide such a plan should be required to contribute into either a supplementary Social Security plan or a government-sponsored annuity plan that builds on existing programs, e.g., state employees' pension systems.

- Curb corporate abuse of the bankruptcy process: All workers should have a claim in bankruptcy court for lost pensions, just like unpaid wages. Today, only the PBGC can pursue such a claim and regardless of what it realizes, the PBGC will not pay pension beneficiaries more than the PBGC-insured limits. Companies should be precluded from selling assets to escape their pension obligations. Today, companies in bankruptcy will sell their assets "free and clear," leaving nothing but shell companies to fund employee benefits.

- Improve defined contribution plans: Employers should be given the flexibility to provide benefits through qualified defined contribution plans, but not as a substitute for their contribution to the defined benefit system. The design of worker savings plans should be improved to make worker contributions to employer-provided defined contribution the default option for workers. Requiring employer contributions to worker savings plans, like defined contribution plans, should also be considered.

- Make all retirement savings vehicles effective and efficient: Many 401(k)s and IRAs are not operated in the best interests of Americans straining to save for retirement. Reducing the big fees paid out of workers' retirement accounts can yield both enormous aggregate savings and meaningful improvements in individual workers' retirement security. Making sure plans are structured and operated so that saving, investment and distribution decisions are simple also will improve Americans' retirement security.

In the alternative, Congress can begin a **comprehensive process of pension and retirement income security reform** following the recommendations of the **Retirement USA Conference** report http://www.retirement-usa.org/wp-content/uploads/2009/10/Conference-Report.pdf listed below:

Core Principles
Universal coverage. Every worker should be covered by a retirement plan in addition to Social Security. A new retirement system should include all workers unless they are in plans that provide equally secure and adequate benefits.

Secure retirement. Retirement shouldn't be a gamble. Workers should be able to count on a steady lifetime stream of retirement income to supplement Social Security.

Adequate income. Everyone should be able to have an adequate retirement income after a lifetime of work. The average worker should have sufficient income, together with Social Security, to maintain a reasonable standard of living in retirement.

Supporting Principles
Shared responsibility. Retirement should be the shared responsibility of employers, employees and the government.

Required contributions. Employers and employees should be required to contribute a specified percentage of pay, and the government should subsidize the contributions of lower- income workers.

Pooled assets. Contributions to the system should be pooled and professionally managed to minimize costs and financial risks.

Payouts only at retirement. No withdrawals or loans should be permitted before retirement, except for permanent disability.

Lifetime payouts. Benefits should be paid out over the lifetime of retirees and any surviving spouses, domestic partners, and former spouses.

Portable benefits. Benefits should be portable when workers change jobs.

Voluntary savings. Additional voluntary contributions should be permitted, with reason-able limits for tax-favored contributions.

Efficient and transparent administration. The system should be administered by a governmental agency or by private, non-profit institutions that are efficient, transparent, and governed by boards of trustees that include employer, employee, and retiree representatives.

Effective oversight. Oversight of the new system should be by a single government regulator dedicated solely to promoting retirement security.

Members of the Subcommittee, on behalf of the more than 250,000 members of the Ohio Alliance for Retired Americans and Delphi workers and retirees, I want to thank you for this opportunity to testify here today. Americans who have played by the rules during their working lives should be able to live out their retirement years with security and in dignity. Thank you.