A Fate Worse than Fargo

By Julian Delasantellis *Wed, Sep 30, 2009*

Part 2 of a two-part essay on the dark side of Boomer retirement. Discretion is advised.

What makes the current market calamities so much more damaging then the ones of 1987 or 2000-1 is that, indeed, it's not 1987 or 2001. Barring a huge reversal in the market's fortunes, there's not enough time for the current 50%+ losses in equity markets to be recouped.

Now, the average age of America's baby boomers is in the early/mid 50s, meaning that if they try soon to retire on what the financial crisis has left in their retirement accounts, rather than looking at a future of enjoying *coq au vin* in Provence, they'll be dumpster-diving at McDonald's for a long, long time after the money runs out.

A common pitch in advertisements for American retirement advisory services is that one must have enough so as to not "outlive your money"; presumably, what happens then is that you spend your last years lying in your own excrement in a substandard nursing home populated by those on public assistance. With lifespans lengthening and retirement incomes shrinking, will baby boomers start to regret all those wasted hours in that dammed aerobics class?

What about some other traditional support planks of the American retirement? Well, it's obvious that many Americans can't rely on their house as the ark that they can float through retirement on. With real-estate prices down now about 25% from their peak, and still declining about 3% each and every month, the dream of selling the house and moving to a low-priced, sunbelt nirvana is very much in question, especially if the homeowner loaded up the property with first, second mortgages and home-equity lines of credit, hoping that he could pay off the debt with continued house price appreciation.

I suppose that, if you're infirm and arthritic, there are worse fates than having to spend your retirement in the winters of Buffalo, New York, or Fargo, North Dakota, although right now I can't think of one.

But even if the case can be made that the road down the defined contribution/401(k) path is a dead end, does that mean that those still in traditional defined benefit plans, primarily workers in older industries such as automobiles and steel, and public sector workers, are living out their retirements with days of wine and roses? No, they've got their own problems, almost as bad as those cringing upon seeing what the stock market did to their 401(k) today.

Even with corporations under legal mandate and fiduciary obligation to fully fund their defined benefit plans, many of them don't; it is estimated that private sector defined benefit pensions are underfunded to the tune of about $400 billion. Labor unions know that if they pushed the companies in court to fully fund their obligations, the companies could just declare bankruptcy to have the judge discharge them from their obligations, as Delta and Northwest Airlines did in 2005. If the companies do declare bankruptcy, their pension obligations are transferred to the US government's Pension Benefit Guarantee Corporation

(PBGC), which is not mandated to continue your pension payments at your previous level.

Congress chronically ignores the PBGC's cries that it is underfunded, currently to the tune of about $11 billion a year. If one or all three of the Big 3 automakers declare bankruptcy and throw their pension obligations to PBGC, the agency will become massively insolvent within seconds.

Public sector pensions are not covered by the PBGC. If their resources are falling behind obligations, as they are now, with the stock investments of the public sector pension managers heading south just like those of the 401(k)s, it is up to the public authority to make up the shortfall, currently estimated around $1 trillion. That would have to be done with either higher taxes, cuts in other government services, or combinations of both.

Good luck asking voters for increased taxes to support public sector retirements, when their own 401(k)s are being eviscerated.

Is there any form of liberation from the tyranny of evaporating American old-age support? There is, but it's not pleasant. As camp commander Rudolf Höss said in the sign he placed above the gates of Auschwitz, Arbeit Macht Frei—Work Makes You Free.

Just like the case of the 91-year-old Floridian who had to go back to work bagging groceries after losing his fortune to Bernie Madoff, younger Americans are going to have to get used to sharing the public, working space with a lot more elderly people than ever before. Maybe they'll still be at their old jobs, blocking career advancement and creating hostility among younger folk, but you'll see lots more of them in far more menial work—sweeping parks, flipping burgers, manning school crossings, until they can barely stand anymore.

Will the young people take pity on their elders and vote to increase taxes to support these people, or will they, like what happens every day with the sight of homeless people, just turn their heads and look away, and, in doing so, make the society that much coarser and colder?

The magazine *Architecture Week* recently reported on a project called EDAR (Everyone Deserves a Roof), an attempt by California design students to create a prefabricated living space for the homeless out of abandoned single shopping carts. For American baby boomers, who started out in Levittowns, then moved and are now being foreclosed out of McMansions, will this be where destiny forces them to seek shelter from the sun in their Golden Years?

This is far from impossible—it essentially did happen, in the 1930s. If the financial crisis does not abate promptly, it becomes even more likely that it will again. Anybody that can do simple long division can see that stocks are down 50%, but very few fully realize what it means.

It means that 50%-plus of the wealth of America, built up over generations and generations, has been destroyed in the past 17 months. As the pundits should say now instead of what they said on September 11, when a country is finally forced to live within its means after decades of excess, nothing will ever be the same again.

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Read *Like Lambs to the Financial Slaughter: Part 1 of a two-part critical essay on how the American retiree became hostage to volatile markets*.

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