Monness, Crespi, Hardt & Co., Inc.
767 Third Avenue
New York, NY 10017
212 838 7575

Sydney M. Williams

Thought of the Day
"Is Sense Coming to Congress?"
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"Why, sometimes I've believed as many as six impossible things before breakfast." The White Queen was responding to Alice's disbelief as to her alleged age. In today's world, with its unfunded (or poorly funded) pensions, we are asked by corporate CEOs, union leaders, politicians and pension fund trustees to believe another impossible thing – that everything is hunky-dory in the world of pension and health obligations to retirees. Additionally, they seem blasé about the achievability of 8% per annum growth, when calculating expected returns.

Nevertheless, it is possible that a crack has appeared in that veneer. Congress may be concerned. Buried in the spending bill just passed by Congress and signed by the President was a provision that would permit benefit cuts for retirees in multi-employer pension plans. It is true that multi-employer pension plans represent only a small percentage of plans covered by the Pension Benefit Guaranty Corp. (PBGC), but the news is welcome for anyone concerned with fiscal responsibility. There are an estimated 1,400 multi-employer plans in the U.S., covering about 10 million people. Such plans, which can be carried from one employer to another, are common in industries such as construction, trucking and mining, where employees are typically members of a local union that, in turn, is part of a national one. The plans are jointly managed by unions and employers. The plans are guaranteed by the PBGC, and therein lies the rub. The PBGC, in its annual report, noted that its projected long-term deficit for multi-employer plans had widened to $42 billion from $36 billion a year earlier, despite hefty returns to stock and bond markets.

While the provision will certainly be challenged by affected pensioners, it is also possible that this may be a prelude to addressing all pension obligations, and acknowledging that more realistic return assumptions must be used. Take, for example, Social Security. It is common knowledge that, in its current form, it is not sustainable. Thirty-one years ago, President Reagan and House Speaker Tip O'Neill, in order to avert its insolvency, collaborated in getting the retirement age raised gradually from 65 to 67. Today, if the President and Congress were able to introduce means testing, change the calculation for CPI and raise the retirement age from 67 to 70, the program would remain viable. If they do not, it will not.

Politicians express the Christmas spirit year round, in that they promise and give. But, like the prodigal son, they express little concern about cost, and no one person wants to be the Grinch. Nevertheless, there are moments when it feels that the country is racing toward a concrete wall. Debt and obligations pile up, and the only panacea Congress and the Administration (with a compliant Federal Reserve) seem capable of is to keep interest rates as low as possible on our country's rapidly accruing debt, and to raise taxes – fees as they sometimes euphemistically refer to them. It is a game that, left unto itself, will end badly.

We are a consumer-driven economy. What we want, we want now. The concept of saving is as dated as galoshes. It is an Alfred E. Neuman, “What, me worry?” attitude that ignores an on-rushing future. One consequence of our behavior is a lack of preparedness for retirement.

But all that has begun to change. The private sector, with its eye necessarily on the bottom line, has moved away from defined benefit plans toward defined contribution plans, thereby putting much of the onus on the individual. Government and union plans have been slow to adopt. But they will have to. The money is not there. Responsibility for saving toward retirement will increasingly fall on the individual, a responsibility largely avoided for the last seventy years.

There are those who feel the average person is incapable of doing so. I disagree, but I also understand that the transition will be difficult. It will take time. It must include provisions to assist in savings, and, concomitantly to reduce incentives to consume. IRAs and 401Ks are a good first step, but these programs will have to be expanded. We have 10,000 people reaching retirement age every day. In terms of Social Security, the number of workers per retiree dropped from forty-one to four between 1945 and 1965. Today, it is under three. By 2030, it is projected to be two. The future is here. While I feel badly for the deceived and affected workers in multi-employer plans, it is good that Congress belatedly recognized the problem and has attempted to address it.

A consequence of government divided by partisanship has been a rise in populism. Populism is manifested on the Right with the Tea Party and with Senators like Paul Rand and Ted Cruz. On the Left, it is embedded with President Obama, and now Senator Elizabeth “Pocahontas” Warren, the latter as its newest standard bearer. On both sides, individuals have stirred populist passions, but I suspect they are whistling in the dark. When it comes to selecting the next President, it is my guess that the people will decide on a governor. Governors do not get the national press of bloviating Senators, but they have had experience in actually running things. And voters – listen up, Jonathon Gruber – are not stupid.

This may be only a Panglossian fantasy on my part, but I believe it likely that the new, Republican-dominated Senate will prove to be more effective and less partisan than that run by Harry Reid. (Admittedly, that is a low bar.) For the last several years unilateralism, in terms of major legislation is concerned, has prevailed. That never works, no matter the ideals such legislation may reflect. Democracy is messy. Making laws, as Bismarck once noted, is like making sausage. The process belies the result. Partisanship is fine on the fringes, as it keeps everyone alert and honest. Those like Senators Warren and Cruz serve a purpose, but you wouldn’t want one in command of the ship. We have had that experience these last six years, with a Leftist, uncompromising, partisan President who had no prior executive experience. We have lived the consequences. My guess is that the people, in 2016, will choose someone with governing experience.

It is too soon to know if the inclusion, in the recently enacted spending bill, of the provision that forces leaders and constituents to face up to the peril of promises that can never be fulfilled. But it seems to this observer that such inclusion *may* signal a change for the better. We shall see.