Boomers Are Retiring, Draining Pension Plans

In a moment of surprising candor, Danielle DiMartino Booth, a former advisor to the Federal Reserve, said in a Real Vision TV interview on Saturday that "the Baby Boomers are no longer an actuarial theory. They're a reality. The checks [from their retirement plans] are being written."

For years commentators have repeatedly asserted that "when" the Baby Boomers (that generation born between 1946 and 1964) start to retire, they will start using up funds set aside in pension plans, putting those plans into crisis. According to Booth, that day has arrived.

She pointed to the crisis in Dallas that threatens to put the city into bankruptcy, and the report from Calpers (the California Public Employees Retirement System), which noted that it earned less than one percent last year, compared to its long term target of 7.5 percent.

She said the "endgame" could evoke memories of the Winter of Discontent in London in 1979 or the more recent riots in Athens. They were provoked by cutbacks in paychecks and essential services as the governments struggled with too many promises made and too little money to keep them.

The riots in Athens hit their nadir on July 16, 2015 when people of all ages gathered to protest the extension of austerity measures imposed by the European Union in exchange for more bailouts. Photographs of those riots (not advised for viewing) showed what happens when the thin veneer of civilization is removed by hunger and loss of confidence.

The strikes in London were driven by essentially the same cause: Paychecks weren't keeping up with inflation. Gravediggers, trash collectors, and others affected picketed hospital entrances, forcing them to take only the gravest of emergency patients. The strikes were exacerbated by a poor economy and the coldest winter in 16 years.

Last April Moody's tried to get a handle on just how underfunded federal, state, and local pension plans are. Adding the unfunded liabilities of the various federal pension systems covering civilian and military employees to the unfunded state and local government pension plan promises, the total came to $7 trillion, or about 40 percent of the country's total economic output in a year.

But Moody's added:

> The biggest challenge to the US comes from the unfunded liabilities for the Social Security and Medicare programs. The Social Security funding gap is estimated at $13.4 trillion … while the shortfall from the Hospital Insurance component of the Medicare program amounts to $3.2

> trillion….
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> That means [that] … the US government shortfall is $20.4 trillion short in funding for retirees.

This is true though retiring Boomers have stayed on the job longer, often until they physically couldn't work any longer. And that is frightening younger generations whose faith in these promises is being shaken. Rasmussen Reports, and other polling agencies, have reported the obvious, and younger workers can see what's coming: "Only 35% of voters under 40 still consider Social Security a good deal for working Americans." And that report is nearly two years old.

It was Boston University Professor Laurence Kotlikoff who first exposed the "funny accounting" that has led so many, including Moody's, to vastly understate the real shortfall. Kotlikoff says that it's an "economics labeling problem" that has led to gross understatements of the liability overhang. The professor instead uses "generational accounting" — estimating what one generation will be forced to pay for another generation's promises. The "fiscal gap," according to Kotlikoff isn't $20 trillion, it's closer to $200 trillion.

It really doesn't matter. The numbers are so huge that neither will be paid in full. There will be massive cuts everywhere as Athens and London have shown. There, basic services were cut for police, firefighters, emergency care workers, and others. Benefit checks were delayed or reduced, or both. Retirement ages were raised.

All of these are defaults on the installment plan.

There is at least one positive: Young people are recognizing reality. They are learning that they will need to make independent financial decisions without factoring in promises that won't be kept. They are recognizing that the chickens aren't just coming home to roost. Those chickens are already in the hen house, and they're hungry.

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