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Funding provided by
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BABY BOOMERS FACE RETIREMENT CRISIS AS LIFETIME PENSIONS WITHER AND 401(k)s FALTER

FRONTLINE presents
Can You Afford to Retire?
Tuesday, May 16, 2006, at 9 P.M. ET on PBS

www.pbs.org/frontline/retirement

The baby boomer generation is headed for a shock as it hits retirement: Boomers will be long on life expectancy but short on income. The two main private sector strategies for funding retirement—lifetime corporate pensions and 401(k) style employee contribution plans—are in serious trouble. FRONTLINE correspondent Hedrick Smith (*The Wall Street Fix*, *Is Wal-Mart Good for America?*) investigates this looming financial crisis, and the outlook for middle class Americans, in *Can You Afford to Retire?* airing Tuesday, May 16, 2006, at 9 P.M. ET on PBS (check local listings).

"I think this is a crisis in the making," says Professor Alicia Munnell, director of the Boston College Center for Retirement Research. "I think 10 or 15 years from now, people who approach their early sixties are simply not going to have enough money to retire on."

"I would say, unless you're fortunate to be in the upper-income quartiles, that you're probably going to be in for a very rough ride," adds Professor Jack VanDerhei of Temple University and the Employee Benefit Research Institute. "You're not going to have sufficient monies to pay the predictable expenses—your housing, your utilities, your food—plus the potential catastrophic medical care costs."

In America today, half of the workforce is not covered by any private sector retirement plan, 30 percent have employee contribution plans like 401(k)s, 10 percent have lifetime pensions, and 10 percent have a mix of pensions and 401(k) type plans.

To maintain their standard of living, experts say, Americans with pensions or 401(k) type plans need to accumulate at least six to ten times their annual pay before they reach retirement. This requires saving 15-18 percent of their salary, every year, over 30 years. Instead, says VanDerhei, typical retirement-age Boomers with 401(k) plans have only half that much saved up—enough to live on for about seven years. With an average life expectancy of 17 years when they hit retirement, many middle class retirees may be living only on Social Security for almost a decade. "Most people we interviewed have no idea what it costs to replace a lifetime pension," says Hedrick Smith. "And they don't realize that as they're living longer, there is an impact on their nest egg."

"The nightmare I have," says pension expert Brooks Hamilton, "is the vision of people … outliving their retirement income, and being down to Social Security, and inflation eats them up." Hamilton feels that the impact of this crisis may go beyond individuals' standard of living. "What holds up our economy … is consumer spending. When retirees are 20 percent of the economy and run out of money, then 'poof' there goes the economy."

Can You Afford to Retire? reports that the past quarter century has seen a massive shift in the cost and responsibility for retirement saving from corporations to employees. According to the U.S. Department of Labor, in 1978 workers put in only 11 percent of total contributions, and corporations, 89 percent; by 2000, the employee share had leapt to 51 percent and the company share had fallen to 49 percent.

One major driver behind this shift is a corporate bankruptcy strategy that enables companies to terminate lifetime pension programs. "Bankruptcy is a way to take legal promises and burn them," says Professor Elizabeth Warren, a Harvard specialist in bankruptcy law. "Chapter 11 has become an effective tool for reorganizing a business…. [But] it's like a knife on the surgeon's table. Bankruptcy is the official, federal, formal way to take legal promises [and] just slice them off."

FRONTLINE takes viewers inside the story of United Airlines, whose bankruptcy left tens of thousands of workers with reduced pensions. United's pension plans had been underfunded by nearly $10 billion, and during its bankruptcy process, those liabilities were dumped on the Pension Benefit Guaranty Corporation, a federal agency now running a $23 billion deficit.

Robin Gilinger, a 42-year-old United flight attendant, says she expects to work five to 10 years longer than planned, now that her United pension has been reduced by nearly 30 percent and other benefits have been cut. "I feel very uneasy about where I'm going to be in 20 years," Gilinger says, "And I'm afraid that I'm going to end up having to work my golden years doing things that I didn't necessarily want to be doing."

Can You Afford to Retire? is a FRONTLINE co-production with Hedrick Smith Productions, Inc. Hedrick Smith is correspondent and senior producer. The program is produced and directed by Rick Young.

FRONTLINE is produced by WGBH Boston and is broadcast nationwide on PBS. Funding for FRONTLINE is provided by the Park Foundation and through the support of PBS viewers. Additional funding for *Can You Afford to Retire?* is provided by The Nathan Cummings Foundation. FRONTLINE is closed-captioned for deaf and hard-of-hearing viewers and described for people who are blind or visually impaired by the Media Access Group at WGBH. FRONTLINE is a registered trademark of WGBH Educational Foundation. The FRONTLINE executive producer for special projects for is Michael Sullivan. The executive producer for FRONTLINE is David Fanning.

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