A TALE OF TWO RETIREMENTS

AS WORKING FAMILIES FACE RISING RETIREMENT INSECURITY, CEOS ENJOY PLATINUM PENSIONS.

DECEMBER 2016

Institute for Policy Studies

Authors

Sarah Anderson directs the Global Economy Project at the Institute for Policy Studies and has co-authored 23 IPS annual reports on executive compensation. She is also a co-editor of the IPS web site Inequality.org.

Scott Klinger has worked in the arenas of corporate social responsibility, executive compensation, and corporate taxes for three decades. He crafted the first shareholder proposals on executive pay while working as a social investment portfolio manager. Scott is a CFA charterholder.

Research Assistance: Christopher Pitt.

Design: Kenneth Worles.

Acknowledgements: We're indebted to Monique Morrissey of the Economic Policy Institute for generously providing data on retirement assets of American families. We also highly value the thoughtful input received on last year's edition from Nancy Altman of Social Security Works.

Institute for Policy Studies

The **Institute for Policy Studies** (www.IPS-dc.org) is a multi-issue research center that has conducted path-breaking research on executive compensation for more than 20 years.

The IPS Inequality.org website (http://inequality.org/) provides an online portal into all things related to the income and wealth gaps that so divide us, in the United States and throughout the world. **Sign up for our weekly newsletter at: http://inequality.org/thisweek/ Twitter: @inequalityorg**

Institute for Policy Studies
1301 Connecticut Ave. NW, Suite 600
Washington, DC 20036
202 234-9382
www.ips-dc.org, Twitter: @IPS_DC
Facebook: http://www.facebook.com/InstituteforPolicyStudies
Email: sarah@ips-dc.org

Contents

Key findings

Just 100 CEOs have company retirement funds worth $4.7 billion — a sum equal to the entire retirement savings of the 41 percent of U.S. families with the smallest nest eggs.

This $4.7 billion total is also equal to the entire retirement savings of the bottom:

- 59 percent of African-American families
- 75 percent of Latino families
- 55 percent of female-headed households
- 44 percent of white working class households

On average, the top 100 CEO nest eggs are large enough to generate for each of these executives a $253,088 monthly retirement check for the rest of their lives.

- Among ordinary workers, those lucky enough to have 401(k) plans had a median balance at the end of 2013 of $18,433, enough for a monthly retirement check of just $101.
- Of workers 56-61 years old, 39 percent have no employer-sponsored retirement plan whatsoever and will likely depend entirely on Social Security, which pays an average benefit of $1,239 per month.

With nearly $3 billion in special tax-deferred accounts, Fortune 500 CEOs stand to gain enormously from Trump's proposed tax cuts on top earners.

- If President-elect Donald Trump succeeds in cutting the top marginal tax rate from 39.6 percent to 33 percent, Fortune 500 CEOs would save $196 million on the income taxes they would owe if they withdrew their tax-deferred funds.
- Unlike ordinary 401(k) holders, most top CEOs have no limits on annual contributions to their tax-deferred accounts. In 2015 alone, Fortune 500 CEOs saved $92 million on their taxes by putting $238 million more in these accounts than they could have if they were subject to the same rules as other workers.
- Michael Neidorff, the CEO of Centene, a provider of health plans to Medicaid recipients and other low-income Americans, has nearly $140 million in his deferred compensation account, up 658 percent since the 2010 launch of Obamacare.

The retirement asset gap between CEOs mirrors the racial and gender divides among ordinary Americans.

- The 10 white male CEOs with the largest retirement funds hold a combined $1.4 billion, more than eight times more than the 10 CEOs of color with the largest retirement assets and nearly five times as much as the top 10 female CEOs.

Introduction

The presidential election put a spotlight on the decline of American manufacturing and the related economic insecurity among white working class males. In recent decades, this demographic group lost millions of unionized factory jobs that were once a major source of both decent pay and retirement benefits.

But they're not the only ones with reason to be concerned about their economic futures. White working class families, families of color, and female-headed households share common worries about whether they'll be able to afford to retire and whether their golden years will be tarnished by financial stress. Our country's real retirement divide is between those at the top of corporate America and nearly all the rest of us.

This second annual IPS "Two Retirements" report provides a detailed analysis of this CEO-worker retirement benefit gap. As our numbers make startlingly clear, big company CEOs are continuing to enjoy colossal nest eggs while many of these leaders are further eroding their own employees' retirement security.

Why has the CEO-worker retirement benefit gap become such a chasm? This is not the result of executives working harder or investing more wisely. Instead, this gap is one more example of rule-rigging in favor of the 1%.

> **Pension rules:** Ordinary workers face strict limits on how much pre-tax income they can invest each year in tax-deferred plans like 401(k)s. But most Fortune 500 firms set up special unlimited tax-deferred compensation accounts for their executives where their money can grow, tax-free, until they retire and withdraw it.
>
> **Compensation rules:** Since more than half of executive compensation is now tied to the company's stock price, CEOs have a powerful personal incentive for slashing worker retirement benefits in order to boost the short-term bottom line. Every dollar not spent on employee retirement security is money in the CEO's pocket.
>
> **Tax rules:** CEO retirement funds are growing because CEO pay is growing and much of it is stashed in executive tax-deferred retirement accounts. Our tax code encourages excessive CEO pay by allowing corporations to deduct unlimited amounts of executive compensation off their federal income taxes, as long as it is "performance-based." The more corporations pay their CEO, the less they owe in taxes. The rest of us make up the difference.

This report ends with a series of proposals to unrig the rules that bloat CEO retirement benefits while ensuring a dignified retirement for other Americans.

The Retirement Divide

On top of their massive annual paychecks, CEOs of most large U.S. corporations have amassed gilded retirement fortunes. These fortunes come from two pots:

1. Pension plans: CEOs often participate in both a regular employee plan (if it's available) and a far more lucrative Supplemental Executive Retirement Plan. SERPs can be designed as defined benefit plans, which guarantee a monthly check after retirement, or as defined contribution plans, which may include variable or performance-based features.

2. Non-qualified Deferred compensation plans: Whereas ordinary workers face limits on how much of their pay they can set aside each year in a 401(k) or other defined contribution plan (currently $24,000 for employees approaching retirement), CEOs face no such limits on special deferred compensation plans set up by their companies.

Based on SEC filings, the 100 largest CEO nest eggs in the Fortune 500 in 2015 amounted to a combined total of $4.7 billion. Glenn Renwick of the Progressive insurance company had the largest, with more than $194 million. He retired in July 2016, and using an annuities calculator, we estimate his monthly retirement check to be more than $1 million. The eight largest funds each exceeded $120 million. All of these men can expect to receive a check for more than a half million dollars every month for the rest of their lives.

The 10 Largest CEO Retirement Funds

CEO	Corporation	Total retirement assets, 2015	Monthly retirement check
Glenn M. Renwick	Progressive	$194,468,207	$1,035,733
Paul Saville	NVR	$175,241,964	$933,335
David M. Cote	Honeywell	$170,618,895	$908,712
John H. Hammergren	McKesson	$146,891,146	$782,339
Michael F. Neidorff	Centene	$139,664,473	$743,850
Larry J. Merlo	CVS Health	$138,156,128	$735,816
Richard B. Handler	Leucadia National	$136,214,897	$725,477
Brian L. Roberts	Comcast	$121,260,621	$674,295
Jeffrey R. Immelt	General Electric	$92,164,987	$490,869
John Strangfeld	Prudential Financial	$85,054,087	$453,179

See Appendix 1 for details on the 100 largest CEO retirement funds in 2015. While the combined value of these funds was down slightly over the top 100 total in 2014, this was due to the departure of just a few CEOs with exceptionally large retirement funds. Among the 85 CEOs who appeared on the top 100 lists in both 2014 and 2015, retirement assets grew by 4 percent on average last year. By contrast, more than 70 percent of U.S. investors lost money in 2015.

John Hammergren, McKesson

Closing worker pensions while feathering a $147 million nest egg

A few months after John Hammergren joined McKesson in 1996, the drug wholesaling giant froze its employee pension fund, closing it to employees who started work in 1997. But that didn't stop the company from launching a lavish Executive Benefit Retirement Account that has showered Hammergren with $114 million in McKesson pension assets. That works out to nearly $22,000 per day during the 20 years he's spent as CEO.[1] Hammergren has another $33 million socked away in his tax-deferred compensation account, for a total retirement nest egg of $147 million, the fourth-largest in the Fortune 500.

McKesson's pay has come under intense scrutiny. Recently, the Teamsters union called for the firm to claw back millions of dollars in bonuses that went to Hammergren during a period in which the union charges the CEO damaged the company's reputation by failing to prevent opioids produced by the firm from being diverted into the black market.

Profiting from Obamacare

Health care CEOs are particularly well-represented at the top of the largest nest egg list. There are 10 chief executives from this sector in the top 100, including three that made it into the top 10. The health industry CEO with the largest increase in his retirement assets since the launch of the Affordable Care Act is Centene's Michael Neidorff. While leading a firm whose core business is managing state-run Medicaid programs for low-income Americans, Neidorff has seen his retirement assets balloon by 658 percent since 2010 to nearly $140 million.

Health Care CEOs Among the Top 100 in Retirement Assets

CEO	Corporation	Total retirement assets, 2015	% change since Obamacare began in 2010
John Hammergen	McKesson	$146,891,146	38.0%
Michael Neidorff	Centene	$139,664,743	658.3%
Larry Merlo	CVS Health	$138,156,128	264.9%
Ian Read	Pfizer	$81,849,948	217.8%
Wayne Smith	Community Health	$52,726,124	63.6%
John Lechleiter	Eli Lilly	$48,012,204	83.9%
Myles White	Abbott Labs	$35,999,563	38.3%
Kenneth Frazier	Merck	$32,882,143	178.7%
Lamberto Andreotti	Bristol Myers	$31,449,725	500.6%
Alex Gorsky	Johnson & Johnson	$23,300,399	N/A (started in 2012)
Total		**$730,932,123**	

CEOs v. the Rest of Us

The sum of the 100 largest CEO company retirement funds — $4.7 billion — is equal to the entire retirement account savings of the 41 percent of American families that have the least amount of retirement savings (this represents 50 million families and 116 million people).

On average, the CEOs' nest eggs are worth nearly $47.5 million. If converted to an annuity at age 65, this would be enough to generate a $253,088 monthly retirement check for the rest of their lives. Contrast that with the situation for ordinary workers. For those lucky enough to have a 401(k) plan, the median balance at the end of 2013 was just $18,433, enough for a monthly retirement check of just $101.

According to the Economic Policy Institute, the share of prime working age families covered by a defined benefit pension dropped from 41 percent in 1989 to 21 percent in 2013. Of workers 56-61 years old, 39 percent have no employer-sponsored retirement plan whatsoever. These workers are likely to be wholly dependent on Social Security, which pays an average benefit of $1,239 per month.

Younger Americans face a particularly difficult time saving for retirement. More than half of millennials have not yet begun to save for retirement because of stagnating wages and high levels of student loan debt. Americans under 40 have saved 7 percent less for retirement than people in that age group were able to save in 1983. As our population ages, young workers will have an even harder time gaining a foothold in the economy, as more experienced employees have no choice but to extend their working years.

Since corporate retirement plans are based in part on earnings, women and people of color, who earn on average significantly lower wages than their white male counterparts, fare worse in retirement.

The Top 100 CEOs Have More Retirement Wealth Than...

41 percent of all American families
(represents 50 million families and 116 million people. Of all American families, 37% have no retirement wealth)

59 percent of African-American families
(represents 11 million families and 25 million people. Of all African-American families, 51% have no retirement wealth)

75 percent of Latino families
(represents 10 million families and 29 million people. Of all Latino families, 66% have no retirement wealth)

55 percent of female-headed households
(represents 19 million families and 37 million people. Of all female-headed households, 49% have no retirement wealth)

44 percent of white working class households
(represents 21 million families and 47 million people. "Working class" is defined as non-college-educated. Of all white working class households, 39% have no retirement wealth)

CEOs v. African-American and Latino families

The 100 largest CEO retirement funds are worth a combined $4.7 billion. That's equal to the entire retirement account savings of 59 percent of African-American families and 75 percent of Latino families. Fifty-one percent of African-American families and 66 percent of Latino families have no retirement savings at all, compared to 37 percent of all U.S. households. For families that do have retirement account savings, the median amount balance is $22,000 for black and Latino families, compared with $73,000 for white families.

Monique Morrisey of the Economic Policy Institute has done in-depth analysis of prime working age families, those headed by individuals 32 to 61 years old. One of her key findings is that 59 percent of full-time white workers and 53 percent of African Americans in this age group were enrolled in an employer-based retirement plan in 2012, compared to only 34 percent of Latinos. She has concluded that the main reason for this is that Latinos are more likely to work for employers who offer no plan whatsoever. Nearly 60 percent of Latino full-time workers are in this situation.

CEOs v. female-headed households

The $4.7 billion held in the 100 largest CEO retirement funds is equal to the entire retirement account savings of 55 percent of female-headed households. Throughout their work lives, women typically earn 79 cents for every dollar earned by a man. They also are more likely than men to leave the workforce for a number of years to tend to their children. Because defined benefit and defined contribution plans as well as Social Security are all based in part on lifetime earnings, both of these factors contribute to women having fewer retirement assets than men.

Median incomes for women 65 and older are 45 percent lower than their male counterparts ($17,375 vs. $31,169). Once retired, women must stretch their retirement savings further because they live longer than men. According to EPI's Morrisey, single women are particularly vulnerable to economic hardship in their old age. As of 2013, households headed by prime working age single women had only $30,000 in retirement savings, compared to $34,000 for single men and $78,000 for married couples.

CEOs v. white working class families

The retirement divide between CEOs and the white working class is also extreme. The top 100 CEOs' nest eggs are equal to the total retirement savings of the 44 percent of white working class families with the least amount of retirement wealth. This represents 21 million families headed by a white person without a college education, or 47 million people.

The share of white working class families with no retirement savings whatsoever is 39 percent. This makes this demographic group more likely to have some retirement savings than African-American, Latino, and female-headed households. But the economic hardship tens of millions of non-college-educated whites are facing in their old age is still severe and their slight edge over other demographic groups does little to reduce their concerns. As polling around the presidential election suggests, the demoralizing downward economic slide of the white working class over the past several decades has heightened economic insecurity and fears for the future. Less than a quarter of the white working class expect their children to do better than them economically, compared to 36 percent of working class African-Americans and 48 percent of working class Latinos, according to a CNN-Kaiser Family poll.

The United States has lost five million manufacturing jobs since 2000 alone. Those that still exist tend to pay less and provide fewer benefits. The hollowing out of American manufacturing is a significant factor in the drop in private sector employee pension coverage by more than half since the early 1990s. The number of manufacturing jobs held by black workers has declined more rapidly than for white workers. But in terms of total job losses from industrial decline, white workers without a college education have experienced the largest losses.

Trump Tax Plan Will Make CEO Retirement Loopholes More Lucrative

One major reason CEO retirement assets are so large is that the tax code allows preferential treatment for executives. The 50 percent of Americans who are offered a 401(k) plan at their workplace face strict limits on how much they can set aside tax-free each year toward their retirement. Workers 50 and older can contribute $24,000 each year, while younger workers can contribute $18,000 tax-free into their 401(k).

Most CEOs of big corporations have no such limits. Nearly three-fourths of Fortune 500 firms offer special unlimited deferred compensation plans to their top executives. The corporations may not deduct the cost of this compensation off their income taxes until it is withdrawn, and therefore such plans are restricted to just a handful of elite executives. Executives with these special deferred accounts benefit from the tax-free compounding of investment returns.

The 10 Largest CEO Deferred Compensation Accounts

CEO	Company	Total deferred compensation
Glenn M. Renwick	Progressive	$194,363,690
Paul Saville	NVR	$175,241,964
Michael F. Neidorff	Centene	$139,193,316
Richard B. Handler	Leucadia National	$135,875,302
David M. Cote	Honeywell	$114,648,591
Brian L. Roberts	Comcast	$114,604,993
Larry J. Merlo	CVS Health	$93,624,599
C. Douglas McMillon	Walmart	$67,824,078
Thomas J. May	Eversource Energy	$55,938,452
John P. Wiehoff	CH Robinson Worldwide	$55,153,642

Because CEOs pay only pay income taxes on these sums once they withdraw the funds, those that have accumulated huge balances in these tax-deferred accounts stand to benefit enormously if President-elect Donald Trump succeeds in his plan to cut the top marginal tax rate from 39.6 percent to 33 percent. As of the end of 2015, Fortune 500 CEOs had accumulated nearly $3 billion in these deferred compensation accounts. At a 39.6 percent income tax rate, they would owe $1.2 billion to the IRS on this income. At a 33 percent rate, they would owe Uncle Sam only $979 million, for a combined savings of $196 million.

Executives can also take steps to minimize their state income tax liability by moving after retirement to a state with low or no state income taxes (e.g., Florida). These accounts can even be passed on to the executive's heirs, allowing our country's extreme wealth concentration to be passed on to future generations.

The federal government and state governments lose millions of dollars of revenue a year because of these tax-deferred accounts. In 2007, the Senate passed a minimum wage bill that would have limited annual executive pay deferrals to $1 million, but the provision was dropped in the conference committee. According to the Joint Tax Committee, at that time the measure would've saved taxpayers $806 million over 10 years. With today's even larger deferred accounts, the taxpayer benefits of eliminating this loophole are likely much larger.

In 2015 alone, 215 Fortune 500 CEOs invested a combined $227 million more of their pre-tax income in these plans than they would have been able to invest if they'd been subject to the maximum $24,000 cap that applies to ordinary workers. If they had been subject to this limit, they would've owed the U.S. Treasury $90 million more in income taxes last year.[2] The CEO with the largest nest egg, Glenn Renwick of Progressive Insurance, has $194 million in deferred compensation. In 2015, he added $25 million more to this account than his own employees would be allowed to, saving $9.8 million on his tax bill that year.

Walmart: The Quarter Billion Dollar Men

Walmart CEO Doug McMillon had $67.8 million in his deferred compensation account in 2015. This was the eighth-largest tax-sheltered stash in the Fortune 500, impressive for a man who's been CEO since just 2014. But it still pales in comparison to the nest egg enjoyed by his predecessor, Michael Duke. In 2013, he walked away with more than $140 million in deferred compensation. Lee Scott, who led the giant retailer from 2000 to 2009, accumulated $47 million in his tax-sheltered pot. All total, these three CEOs had more than a quarter of a billion dollars in these accounts.

Among the 1.5 million ordinary U.S. Walmart employees, less than two-thirds have a company-sponsored retirement account. Those that do have an average balance of just $23,893 — enough to generate a monthly retirement check of $131 per month. CEO McMillon can expect to receive at least $360,000 every month — more than 2,700 times the amount a typical Walmart worker with a 401(k) account can expect.

White male CEOs v. other CEOs

The rules of the executive retirement system have been rigged to privilege those who have traditionally led large U.S. corporations—white males. Even when women and people of color break into Fortune 500 corner offices, their retirement assets still don't measure up to those of their white male counterparts. In 2015, the top 10 largest retirement funds among Fortune 500 CEOs—all held by white males—added up to $1.4 billion. By contrast, the 10 largest retirement funds held by female CEOs added up to $300 million and the 10 largest held by CEOs who are people of color added up to $165 million.[3]

Largest CEO Retirement Assets by Demographic Group		
CEO	**Company**	**Total retirement assets**
10 largest held by while male CEOs: $1.4 billion total		
Glenn M. Renwick	Progressive	$194,468,207
Paul Saville	NVR	$175,241,964
David M. Cote	Honeywell	$170,618,895
John H. Hammergren	McKesson	$146,891,146
Michael F. Neidorff	Centene	$139,664,473
Larry J. Merlo	CVS Health	$138,156,128
Richard B. Handler	Leucadia National	$136,214,897
Brian L. Roberts	Comcast	$126,604,993
Jeffrey R. Immelt	General Electric	$92,164,987
John Strangfeld	Prudential Financial	$85,088,397
10 largest held by female CEOs: $300 million total		
Marillyn A. Hewson	Lockheed Martin	$74,676,599
Irene Rosenfeld	Mondelez	$43,532,386
Debra L. Reed	Sempra Energy	$39,002,887
Indra K. Nooyi	PepsiCo	$35,366,021
Carol Meyrowitz	TJX	$32,437,909
Ellen J. Kullman	DuPont	$22,989,958
V.M. Rometty	IBM	$18,351,975
Ursula M. Burns	Xerox	$16,937,837
Denise M. Morrison	Campbell Soup	$10,007,678
Lynn J. Good	Duke Energy	$6,982,153
10 largest held by CEOs who are people of color: $165 million total		
Kenneth I. Chenault	American Express	$44,580,451
Indra K. Nooyi	Pepsico	$35,366,021
Kenneth C. Frazier	Merck	$32,882,143
Ursula M. Burns	Xerox	$16,937,837
Richard Gonzalez	Abbvie	$15,950,220
George Paz	Express Script	$9,513,479
Carlos A. Rodriguez	ADP	$6,142,657
Robert E. Sanchez	Ryder Systems	$2,455,014
Joseph Alvarado	Commercial Metals	$1,191,889
S. Ghasemi	Air Products & Chemicals	$191,323

History of the Retirement Divide

Top executives have long sought to limit their companies' responsibilities toward worker retirement security. The first private pension plan was started in 1875 (by American Express) and in the early 20th century newly unionized workers successfully pushed for pensions at railroad and steel companies. However, most early plans included disclaimers that pension obligations were not enforceable.

1946-1980: Expanding Pension Benefits for Working People

At the close of World War II, workers organized for better benefits, including pensions. In 1946, there were nearly 5,000 strikes involving 4.6 million American workers. By 1960, 41 percent of private sector workers were covered by defined benefit pensions, up from 15 percent in 1940.

In the 1940s, Congress also ended the corporate practice of using pensions for top executives as a tax-avoiding tool. A new law in 1942 limited favorable tax treatment only to plans that did not discriminate in favor of highly compensated employees. Congress also imposed other rules to ensure that private pensions delivered on their promises. In the late 1950s, the federal government increased disclosure requirements governing pensions and in 1962 the federal government enacted legislation regulating pensions to safeguard workers from fraud and poor management.

Unions continued to press for more and better pensions and the number of workers receiving pensions continued to grow. In 1974, Congress enacted the Employee Retirement Income Security Act (ERISA), which establishes standards for private sector pensions. Defined benefit pensions reached a high in 1980, when 46 percent of the private sector workforce was covered.

1980-Present: Rule Shifts Prioritize Corporate Profits Over Worker Retirement Security

In 1981, the federal government dramatically reversed several decades of supporting and protecting labor unions when President Ronald Reagan broke the air traffic controllers' union strike by bringing in replacement workers. With labor power on the decline, companies began to adopt new defined contribution programs, such as 401(k)s, that shifted investment risk from workers to employers. Rather than providing employees a guaranteed monthly income throughout their retirement years, these new plans allowed workers to set aside money deducted from their pay, with the company sometimes, but not always, matching a portion of the employee contribution. There was no guarantee of monthly benefits at retirement. The amount workers received depended on how much the individual contributed, the success of their investments, and the size of administrative costs and fees, which are often hidden from view. This move slashed corporate employee retirement costs, boosting earnings and stock prices.

Jeff Immelt, General Electric

Freezing and underfunding worker pensions while padding his own

GE used to operate a contributory pension plan which employees funded each month from their paychecks. But because rising markets offset the company's expected contribution, the company wound up not putting a penny into their employee pension plans between 1987 and 2011. After stock market losses in the Great Recession eroded pension assets, CEO Jeff Immelt decided to freeze the company's pensions and close them to new participants rather than investing the billions of dollars necessary to make up for market losses.[4] Workers were offered a riskier and less generous 401(k) plan. Since 2011, when its pension was closed, GE's pension deficit (the amount which it owes its workers less the value of assets in the pension plan) has widened from $18 billion to $23 billion. Over the same period, Immelt's company-sponsored retirement assets have ballooned from $53 million to more than $92 million in 2015, making him No. 9 on our list of CEOs with the largest retirement funds.

Another strategy companies began to use in the 1980s to shield their pension liabilities was to convert their traditional pensions into cash balance plans. While technically considered pensions, these plans have more in common with defined contribution plans, like 401(k)s. Companies place a percentage of the employee's salary into their account, with retirement benefits determined by the account's performance over their career. There is no guaranteed monthly income upon retirement.

These plans have been heavily criticized for undercutting the retirement security of older workers, since traditional pensions were funded with small contributions in the early years of an employee's career and much larger payments as workers reached retirement. Cash balance plans make equal payments throughout the worker's life. Unions have claimed these plans are a form of age discrimination, but courts have consistently ruled the plans non-discriminatory and Congress further clarified the rules with the passage of the Pension Protection Act of 2006, which made all future conversions to cash balance plans legal. The number of cash balance plans has tripled since the 2006 Act was passed and now account for a quarter of all defined benefit plans.

The decline of traditional pensions was indirectly fueled by changes in CEOs compensation rules. In 1993, when Congress responded to outrage over CEO pay by capping the deductibility of executive pay at $1 million, but leaving a massive loophole for so-called "performance-based" pay. To maximize their tax deductions, companies began shoveling out huge amounts of stock-based compensation, which bloated paychecks and encouraged CEOs to fixate on short-term stock prices. Cutting employee retirement costs was one way to do that.

Remaining traditional pensions have often been inadequately funded. Companies were allowed to forego pension contributions in years when stock market returns boosted the value of their pension plan assets more than the growth of their liabilities to beneficiaries. Strong markets throughout much of the 1980s, 1990s, and early 2000s meant that companies needed to contribute very little, if at all, to keep their pension accounts healthy. But falling stock prices during the Great Recession meant companies needed to invest hundreds of billions of dollars to make up for market declines and shore up pensions. Instead, many executives chose to freeze benefits for current workers and close plans to new employees. Defined contribution plans, such as 401(k)s, became the standard employee retirement account.

Pension Status at the 10 Corporations with Largest CEO Retirement Accounts

Company	Pension status	Amount owed to pension fund	% of pension obligations funded
Progressive	No pension, only 401(k)	NA	NA
NVR	No pension, profit-sharing retirement plan and ESOP	NA	NA
Honeywell	Open and active	$949 million	94.5%
McKesson	Closed to new hires, 1996	$273 million	49.0%
Centene	No pension, only 401(k)	NA	NA
CVS Health	Pension terminated, 2015	$231 million	72.6%
Leucadia National	Pension frozen, 2005	$89 million	56.9%
Comcast	Pension terminated. 2014	$309 million	0.0%
General Electric	Closed to new hires, 2010	$23 billion	66.5%
Prudential Financial	Open and active	$302 million overfunded	103.0%

Source: Corporate 10-K reports.

By 2013, three times as many private sector workers were participating in a defined contribution plan as were covered by a traditional defined benefit pension. Many defined contribution plans require employees to contribute before the company will match the employee's contribution, if there is any match at all. For many low-wage workers who are struggling to pay rent and put food on the table, 401(k)s are out of reach, even when their employers offer generous matches. One in four American workers do not save enough in their 401(k) plans to receive the full match offered by their companies. In 2014, the average amount of employer match not received was $1,336, according to Missing Out, published by Financial Engines, Inc.

The Pension Rights Center has compiled data on nearly 200 large U.S. corporations that have reduced coverage or benefits for employees since the end of 2005, either by converting traditional defined benefit plans to cash balance plans, freezing the plans so that participating employees stop accruing additional benefits, closing plans to new hires, or terminating plans altogether.

ERISA, the nation's pension protection law, allows companies to not fully fund employee pensions and in 2014, Congress gave corporations additional rights to put off required funding of employee pensions. As a result, pension contributions in 2014 fell to their lowest levels in six years, and the average large pension fund had enough assets to cover just 82 percent of their obligations. In 2015, this figure remained unchanged.

The erosion of pension protections continues through "risk-stripping" moves that transfer risk from employer to employee. One common risk-stripping move is to offer workers a one-time lump-sum payment rather than a guaranteed monthly check. This is a high-risk option for most retirees, who must then manage the funds to last throughout the rest of their lives. The IRS banned corporations from offering lump sum payments to workers already receiving pensions, starting in July 2015. Workers and retirees in more than two dozen large firms have already been offered lump sum payments.

Select Fortune 500 Firms Offering Workers Lump Sum Payments

Company	Number of workers/retirees affected	Date of announcement
UPS	50,000	11/9/2016
Newell Rubbermaid	3,300	8/24/2015
Ryder	11,000	10/22/2014
Motorola Solutions	32,000	9/25/2014
Washington Post	Undisclosed	9/213/2014
Boeing	40,000	9/15/2014
Computer Sciences Corp.	Undisclosed	9/2014
Hartford Financial Services Group	13,500	9/2014
Archer Daniels Midland	10,000	8/5/2014
Lockheed Martin	33,000	Unknown
Baxter International	16,000	10/19/2012
YUM Brands	Undisclosed	10/9/2012
Sears Holdings	Undisclosed	9/14/2012
J. C. Penney	35,000	9/2012
Visteon	Nearly 10,000	9/19/2012
New York Times	5,200	9/14/2012
General Motors	42,000	6/1/2012
Ford Motor	90,000	4/27/2012

Source: Pension Rights Center

Today's CEO fixation on short-term profits, together with our government's failure to prevent union-busting, help explain the decline in private sector employees receiving a pension at work from 46 percent in 1980 to 35 percent in the early 1990s to just 18 percent in 2011.

Reforms to Narrow the Retirement Divide

The retirement divide is the result of tax, pension, contracting, and labor rules and regulations that disproportionately reward company executives far more than ordinary workers. The following are rule changes to rein in the accumulation of retirement assets at the top, while expanding the funds available to ensure a dignified retirement for all.

Tax Reforms

1. Eliminate special tax-deferred compensation plans for corporate executives

Corporate executives should be subject to the same rules that govern the retirement assets of the people they employ. At present older workers may set aside a maximum of $24,000 in their corporate 401(k) accounts while younger workers can contribute up to $18,000. The same limits should apply to CEOs. President Obama proposed capping IRAs and other deferred tax retirement accounts at $3 million, an amount sufficient to generate about $200,000 a year in annual income during retirement. Such a cap would raise an estimated $9 billion over 10 years, revenue that could be put into the Social Security Trust Fund for the benefit of all workers. Another approach would be to ban special executive deferred accounts unless the company is funding retirement plans for all workers.

2. Eliminate tax breaks for companies that increase worker retirement insecurity

Corporations should not be allowed to deduct executive pension and retirement costs from their federal taxes if they have frozen worker pensions, closed plans to new hires, or have employee pension accounts that are not at least 90 percent funded. Taxpayers should not have to subsidize lavish executive retirement packages for employers who have reduced employee retirement security.

3. Eliminate the "performance pay" loophole that allows unlimited corporate tax deductions for executive pay

CEO retirement assets have ballooned because CEO pay has ballooned and executives have stuffed a large share of their expanding paychecks in deferred compensation accounts. One reason for the explosion of executive pay is a 1993 tax reform that capped the tax deductibility of executive compensation at $1 million but with a huge loophole— corporations could still deduct unlimited amounts of stock options and other "performance-based" pay from their federal income taxes. As a result, the more corporations pay their CEO, the less they pay in taxes. The Joint Committee on Taxation estimates that eliminating this perverse loophole would generate more than $50 billion over 10 years. The Stop Subsidizing Multimillion Dollar Corporate Bonuses Act (S. 1127 and HR 2103) would eliminate the "performance pay" exemption and cap the deductibility of compensation at $1 million for every employee.

Social Security and Pension Reforms

4. Expand Social Security and require CEOs to pay their fair share

While we can take steps to reduce public subsidies for lavish CEO retirement accounts, the real answer to the retirement divide lies in expanding Social Security to provide for the millions of soon-to-be-retiring American workers who have worked all of their lives for employers who provided little or nothing for their retirement security. In direct contrast to the private sector retirement divide, Social Security's benefits are progressive, favoring low and middle income workers. A worker who was earning around $20,000 in 2014 and retiring at age 65 would receive a benefit equal to about 54 percent of his or her pay. A worker earning around $46,000 would receive a benefit equal to about 40 percent of that pay. In contrast, a CEO earning $10.5 million who retires at age 65 would receive a Social Security benefit that replaced just 0.28 percent of that pay.

As these percentages reveal, across-the-board Social Security benefit increases, whether structured to provide the increase progressively or simply proportionately, is the best method of addressing the retirement income divide. In addition to across the board increases, targeted increases for low income workers, the very old, who are disproportionately women, and other groups of seniors who experience disproportionately high levels of poverty should also be enacted. There should also be a caregiver credit, which would mostly help women by giving them 5-8 years of work credit if they were out of the labor force caring for a family member.

Requiring the wealthiest to pay more for Social Security will pay for the increased benefits as well as the projected shortfall. It has the side benefit of ameliorating somewhat the nation's dangerously high levels of income and wealth inequality, of which the retirement divide is only one symptom. Some common sense steps to pay for Social Security expansion fairly include requiring the wealthiest to contribute to Social Security on all their earned income, as almost all workers now do, as well as the unearned income of those at the top, including stock-based pay such as that commonly received by CEOs. Other potential revenue sources include a new tax on annual incomes in excess of $1 million and a more robust federal estate tax.

5. Safeguard public pensions

The public sector is the one sector where traditional defined benefit pension plans remain strong. More than 75 percent of state and local employees and nearly all federal employees participate in these plans. But these plans are under sustained, ideological assault. Some of the fiercest attacks are on the strongest public plans. Most state and local government employees do not participate in Social Security, which means they must fully rely on their public pension benefits. According to an Economic Policy Institute report, Wisconsin, Florida, and North Carolina all had the most solvent public employee pension funds at the start of 2011, yet all three enacted dramatic cut-backs. To keep the retirement divide from increasing, it is important to protect and strengthen these plans.

6. Support universal retirement funds

Twenty-eight states have considered legislation that would deal with the looming retirement crisis facing their citizens by starting state-run pensions that would be professionally managed and at much lower costs than the mutual fund investments typically found in 401(k) plans. At least eight states have passed legislation either calling for additional study or authorizing state pension officials to begin the process of implementation. The U.S. Department of Labor and the IRS both need to approve these sorts of plans before they can begin to operate. The Pension Rights Center has gathered additional information on these state proposals here. In the last Congress, now-retired Senator Tom Harkin proposed a similar plan at the federal level called USA Retirement Fund.

Employers that are currently not providing retirement benefits should be required to contribute to a retirement fund on their workers' behalf. These funds would be pooled and professionally managed, ensuring that all workers have some pension assets to supplement their Social Security.

Labor Reforms

7. Strengthen the ability of all workers to unionize

Since the election of Ronald Reagan in 1981 and his firing of 13,000 striking air traffic controllers, the federal government has failed to adequately protect workers' rights to unionize and bargain collectively. The impact of Reagan's action is in the numbers: In 1983, 21.6 percent of workers were members of unions. Today, it is only 12.4 percent—and half of those work in the public sector. Only 6.7 percent of today's private sector workers are unionized. The percentage of workers covered by private pensions is higher when and where unions are strongest. Increasing unionization increases pressure on employers to provide strong retirement benefits.

Procurement Reforms

8. Prohibit large government contractors from providing executives with retirement benefits that are larger than those received by the President of the United States

Taxpayer money should not be used to widen the pension divide. Corporations that manage state-run programs (e.g., Centene's management of Medicaid plans), earn 50 percent or more of their revenue from federal contracts, grants, and loans, or that have received at least $500 million in federal contracts the previous year should be prohibited from providing their executives retirement benefits that are worth more than what the President of the United States receives. (For President Obama, this is estimated to be $205,700 per year or $17,142 per month)

Appendix 1: 100 Largest CEO retirement assets

	Corporation, ranked by total CEO retirement assets	CEO	Pension 2015 ($mill)	Deferred comp 2015 ($mill)	Total retirement assets 2015 (mill)	Monthly check ($)
1	Progressive	Glenn M. Renwick	0.0	194.5	194.5	1,035,733
2	NVR	Paul Saville	0.0	175.2	175.2	933,335
3	Honeywell	David M. Cote	56.0	114.6	170.6	908,712
4	McKesson	John H. Hammergren	114.0	32.9	146.9	782,339
5	Centene	Michael F. Neidorff	0.0	139.7	139.7	743,850
6	CVS Health	Larry J. Merlo	44.4	93.7	138.2	735,816
7	Leucadia National	Richard B. Handler	0.2	136.0	136.2	725,477
8	Comcast	Brian L. Roberts	0.0	126.6	126.6	674,295
9	General Electric	Jeffrey R. Immelt	78.3	13.9	92.2	490,869
10	Prudential Financial	John Strangfeld	75.4	9.6	85.1	453,179
11	Pfizer	Ian C. Read	44.6	37.2	81.8	435,931
12	AT&T	Randall Stephenson	50.9	28.6	79.5	423,174
13	Eversource Energy	Thomas J. May	23.4	55.9	79.3	422,570
14	Lockheed Martin	Marillyn A. Hewson	47.0	27.7	74.7	397,726
15	Exxon Mobil	Rex Tillerson	69.6	2.1	71.6	381,384
16	Walmart	C. Douglas McMillon	0.0	67.8	67.8	361,229
17	Freeport McMoRan	Richard C. Adkerson	30.6	32.3	63.0	335,275
18	W.R. Berkley	William R. Berkley	59.4	2.3	61.8	328,898
19	AFLAC	Daniel P. Amos	54.4	5.4	59.8	318,603
20	PPG Industries	C. E. Bunch	46.0	9.9	55.9	297,622
21	CH Robinson Worldwide	John P. Wiehoff	0.0	55.2	55.2	293,747
22	Community Health Systems	Wayne T. Smith	45.3	7.4	52.7	280,818
23	Hess	John Hess	52.7	0.0	52.7	280,749
24	Boeing	W. James McNerney, Jr.	47.6	5.0	52.6	279,884
25	Discovery Communications	David M. Zaslav	0.0	52.5	52.5	279,529
26	Chevron	J.S. Watson	39.5	9.9	49.4	263,247
27	Eli Lilly	John C. Lechleiter, Ph.D.	32.5	15.5	48.0	255,712
28	Edison International	Theodore F. Craver, Jr.	20.0	26.5	46.5	247,777
29	Praxair	Stephen F. Angel	39.6	6.5	46.0	245,073
30	American Express	Kenneth I. Chenault	9.0	35.6	44.6	237,434
31	Whirlpool	Jeff M. Fettig	21.7	21.9	43.6	232,328
32	Mondelez	Irene Rosenfeld	36.5	7.0	43.5	231,852
33	Northrop Grumman	Wesley G. Bush	33.5	9.9	43.5	231,431
34	Public Service Enterprise	Ralph Izzo	12.3	31.1	43.4	231,355
35	Coca-Cola	Muhtar Kent	40.1	2.5	42.7	227,160
36	Ameriprise Financial	James M. Cracchiolo	11.0	30.7	41.7	222,033
37	Ralph Lauren	Ralph Lauren	0.0	41.2	41.2	219,582

	Corporation, ranked by total CEO retirement assets	CEO	Pension 2015 ($mill)	Deferred comp 2015 ($mill)	Total retirement assets 2015 (mill)	Monthly check ($)
38	Sempra Energy	Debra L. Reed	28.0	11.0	39.0	207,728
39	Goldman Sachs	Lloyd C. Blankfein	0.0	38.5	38.6	205,439
40	Parker-Hannifin	Donald E. Washkewicz	31.6	6.8	38.4	204,469
41	Devon Energy	John Richels	33.6	3.8	37.5	199,468
42	Morgan Stanley	James P. Gorman	0.1	37.3	37.4	199,185
43	Dow Chemical	Andrew Liveris	34.5	2.8	37.2	198,352
44	BB&T	Kelly S. King	29.0	7.2	36.2	192,674
45	Abbott Laboratories	Miles D. White	36.0	0.0	36.0	191,733
46	Pepsico	Indra K. Nooyi	23.3	12.1	35.4	188,359
47	Seaboard	Steven J. Bresky	20.9	14.4	35.3	187,815
48	Marathon Petroleum	Gary R. Heminger	29.9	5.1	35.0	186,453
49	CBS	Leslie Moonves	11.2	23.8	34.9	185,958
50	US Bancorp	Richard K. Davis	30.5	3.1	33.5	178,613
51	Crown Holdings	John Conway	33.5	0.0	33.5	178,566
52	CSX	Michael J. Ward	21.6	11.5	33.0	175,971
53	3M	Inge G. Thulin	24.9	8.0	32.9	175,428
54	Merck	Kenneth C. Frazier	21.8	11.0	32.9	175,130
55	TJX	Carol Meyrowitz	28.9	3.6	32.4	172,764
56	Regions Financial	O. B. Grayson Hall, Jr	29.8	2.5	32.4	172,302
57	Monsanto	Hugh Grant	7.1	24.7	31.8	169,270
58	Bristol-Myers Squibb	Lamberto Andreotti	6.4	25.0	31.4	167,500
59	Deere	Samuel R. Allen	15.5	15.5	31.0	164,976
60	Ashland	James J. O'Brien	14.0	16.9	30.9	164,647
61	Principal Financial	Larry D. Zimpleman	26.6	4.1	30.7	163,664
62	Caterpillar	Douglas R. Oberhelman	25.5	5.1	30.6	162,943
63	Hershey Foods	John P. Bilbrey	22.2	8.0	30.2	160,630
64	Lowe's Companies	Robert A. Niblock	0.0	29.8	29.8	158,625
65	Colgate Palmolive	Ian Cook	28.4	1.4	29.7	158,314
66	General Mills	Kendall J. Powell	27.2	2.3	29.6	157,442
67	ConocoPhillips	R.M. Lance	25.4	3.8	29.2	155,686
68	AK Steel Holding	James L. Wainscott	28.6	0.4	29.0	154,461
69	Corning	Wendell P. Weeks	23.9	4.8	28.6	152,485
70	Loews	James S. Tisch	28.6	0.0	28.6	152,203
71	Capital One Financial	Richard Fairbank	0.1	27.6	27.8	147,833
72	Genuine Parts	Thomas C. Gallagher	25.7	2.0	27.7	147,791
73	Emerson	David N. Farr	20.4	7.1	27.5	146,437
74	Discover Financial Services	David W. Nelms	0.2	26.9	27.1	144,476
75	FedEx	Frederick W. Smith	27.2	0.0	27.2	144,619
76	Dominion Resources	Thomas F. Farrell II	27.0	0.0	27.0	143,639
77	Phillips 66	Greg C. Garland	25.1	1.9	27.0	143,604

	Corporation, ranked by total CEO retirement assets	CEO	Pension 2015 ($mill)	Deferred comp 2015 ($mill)	Total retirement assets 2015 (mill)	Monthly check ($)
78	Alphabet (formerly Google)	Eric E. Schmidt	0.0	26.8	26.8	142,510
79	L Brands	Leslie H. Wexner	0.0	26.7	26.7	142,241
80	Macy's	Terry J. Lundgren	23.8	2.8	26.6	141,755
81	VF Corp	Eric C. Wiseman	16.3	9.7	26.0	138,408
82	Huntington Ingalls Industries	C. Michael Petters	22.6	3.1	25.8	137,377
83	Mattel	Christopher Sinclair	21.7	3.6	25.3	134,829
84	Rockwell Automation	Keith D. Nosbusch	23.0	2.3	25.2	134,387
85	Ecolab	Douglas M. Baker, Jr.	21.2	3.9	25.1	133,502
86	Dillard's	William Dillard, II	25.0	0.0	25.0	133,272
87	Disney	Robert A. Iger	20.8	4.1	24.9	132,574
88	Cummins	N. T. Linebarger	20.1	4.8	24.9	132,479
89	Halliburton	David J. Lesar	0.0	24.5	24.5	130,751
90	UNUM	Thomas R. Watjen	21.6	2.9	24.5	130,684
91	Lincoln National	DENNIS R. GLASS	2.7	21.8	24.5	130,386
92	Wells Fargo	John G. Stumpf	20.0	4.4	24.4	129,709
93	J.M. Smucker	Richard K. Smucker	14.5	9.7	24.3	129,308
94	Hormel Foods	Jeffrey M. Ettinger	12.0	11.8	23.8	126,745
95	Avery Dennison	Dean A. Scarborough	18.8	4.9	23.8	126,655
96	Philip Morris International	André Calantzopoulos	23.5	0.0	23.5	125,125
97	Norfolk Southern	Charles W. Moorman, IV	22.2	1.1	23.3	124,226
98	Johnson & Johnson	Alex Gorsky	14.3	9.0	23.3	124,097
99	DuPont	Ellen J. Kullman	16.9	6.1	23.0	122,444
100	Kimberly Clark	Thomas J. Falk	18.8	4.1	22.9	121,923
	Total		**2,487.2**	**2,262.4**	**4,751.9**	**25,308,763**
	Average		**25.1**	**22.6**	**47.5**	**253,088**

Appendix 2: Methodology and sources

Firms studied: Publicly held firms on Fortune magazine's annual list of the 500 largest U.S. corporations, by revenue.

Total CEO retirement assets: Pension and nonqualified deferred compensation data reported by the companies to the U.S. Securities and Exchange Commission (SEC). In calculating total retirement assets we added back in distributions made during the year to the year-end balances, as distributions made during the year were part of the total retirement package provided to CEOs. In most instances CEO retirement data can be found in the firm's annual proxy statement, Form DEF 14-A. In some cases, especially when firms are awaiting a special meeting of shareholders to consider a merger or other corporate restructuring, executive compensation data will be published in the company's annual report, FORM 10-K. In several cases corporations either replaced their CEO mid-year or had two co-CEOs. In each of these cases we reported the individual with the largest retirement assets.

American family retirement assets: Calculated by Monique Morrisey, Economist, Economic Policy Institute. Aggregate defined benefit pension entitlements and defined contribution plan and IRA assets are from Federal Reserve Flow of Funds data, Table L.117 Private and Public Pension Funds, September 18, 2015. Aggregated defined benefit, defined contribution, and IRA data from 2013 and 2015 were used to adjust CEO values for comparison with 2013 Survey of Consumer Finances data and to impute defined benefit pension wealth for families identified as having a defined benefit plan in the Federal Reserve Survey of Consumer Finances (SCF). All other statistics were based on EPI analysis of SCF microdata, using the following variables:

Wgt: Sample weight
Hhsex: Gender of household head
Edcl: Education category of head of household
Kids: Total number of children in household
Married: Marital status of head of household
Race: Race/ethnicity of respondent
Retqliq: Total value of quasi-liquid held by household, 2013 dollars
Dbplant: Either head or spouse/partner has DB plan on current job or some type of pension

Monthly retirement checks: In order to add meaning to the large size of CEO retirement assets, we calculated how much these leaders could expect to receive in monthly retirement checks if the retirement assets were converted into an annuity at age 65. In order to assure an apples to apples comparison, we used the annuity calculator found at www.immediateannuities.com and selected, Male, age 65, New York, and immediate payout where choices were required. The calculation was performed on November 21, 2016. Amounts for female CEOs would generally be lower owing to women's longer life expectancies. Corporate pension plans have their own formulas for determining annuitized payments, but we believe the use of an annuity calculator provides a useful estimate of the size of executive retirement wealth in terms the average person can easily understand, the size of a monthly retirement check.

Funding position of corporate employee retirement plans: If a company operates a defined benefit pension plan for employees, they report on the funding status of these plans in the annual report, FORM 10-K, filed annually with the SEC. This disclosure is found in the financial footnotes, that immediately follow the income statement, balance sheet and statements of cash flow and shareholder equity, typically near the end of the report. Information about employee pensions is generally posted under a heading like “Pensions” or “Post-Retirement Benefits.” Companies report a variety of information pertaining to their pension assets and liabilities. In presenting their funded status and level of underfunding, we divided the total plan assets by the total projected benefit obligation.

Endnotes

[1] Based on average business days per year of 261.

[2] Based on total contributions in fiscal year 2015 of $232,349,775. Among Fortune 500 CEOs, 215 CEOs made such contributions. If they had only been able to deferred $24,000, their total contributions would’ve been $5,160,000. Based on the top individual tax rate of 39.6 percent, their tax savings comes to 88,604,012

[3] The three people of color CEOs include five Latinos, two Asians, and three African-Americans.

[4] For more information on other large corporations freezing or otherwise changing their pension plans, visit the Pension Rights Center.