



All that's hot in the mutual fund industry

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## Union Pickets Schwab Over Social Sec. Plan

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While several fund firms are taking a low profile in the Social Security reform debate, the AFL-CIO is seeking to bring the issue, and firms' stance on it, to the forefront.

The AFL-CIO sent letters to 46 of the nation's largest financial services firms, the majority of which maintain a significant presence in the fund industry, urging them to "publicly disavow support for Social Security privatization." The letter also called for firms to speak out in favor of "maintaining America's safety net for retired workers."

What can firms expect if they don't go along with the union's stance? Picket lines and protests. Earlier this week the group organized protests against **Charles Schwab** in Boston and San Francisco, demanding that the firm drop its support of Social Security privatization.

Several more protests are being planned for February outside the offices of other firms that received letters, according to AFL-CIO officials. Suzanne Ffolkes, a spokeswoman with the AFL-CIO, says she did not have any details on the protests yet as they are being planned, but that there will be several of them.

**Fidelity, Vanguard, T. Rowe Price, Franklin, Janus, MFS, Oppenheimer, JPMorgan, Alliance, March & McLennan, Legg Mason, Bank of America, Barclays, State Street Global Advisors and Wells Fargo** were all sent the letters last month, according to the AFL-CIO.

Outside of the Schwab offices, 75 to 80 people at each of the protest sites gathered for about an hour during midday on Wednesday with signs reading "Charles Schwab: Don't Pick Our Pockets To Line Yours!" according to the organization. The group says the demonstration included local elected officials, union leaders and working families.

In a letter sent to Schwab, the group states: "While Charles Schwab as a company has been facing several years of poor performance, privatization of Social Security could be a huge windfall and a source of long-term growth."

The organization says that Schwab has supported the **Cato Institute** and the **Alliance for Worker Retirement Security**, both major backers of privatization. Also, Schwab officials have consulted with the White House and voiced support for privatization.

Greg Gable, a spokesman for Schwab, says the firm is "not a proponent of one plan over the other and not participating in the debate. It's too early to have a view on one plan over another." He couldn't provide specifics about the protests.

The AFL-CIO argues that supporting Social Security privatization represents a conflict of interest for financial services firms. It claims the industry could potentially put its interests ahead of those of investors in pushing for privatization and the fees it could collect with more assets under management.

The issue has proven to be a political hot button, and many fund firms are staying out of the debate publicly. However, some observers say many are providing their input and views to elected officials. Others are taking a wait-and-see approach, according to observers.

Fidelity spokesman Vin Loporchio says it is premature to speculate on which plan will end up being put forth and that at this point the firm has no position since there is nothing official on the table.

Fidelity and the AFL-CIO have locked horns before. The union set up picket lines and stationed protesters outside the firm's offices to publicly oppose Fidelity's opposition to portfolio holdings disclosure.

The union says firms like Fidelity may publicly want to distance themselves from the Social Security debate, but it believes the fund industry is pushing for privatization.

"Many firms in the mutual fund industry have been channeling funding for support of privatization of Social Security behind the scenes for years," says Steve Weingarten of the AFL-CIO. "We want firms with their own private game to

be clear with the public."

Some believe the union has ulterior motives for the protests and say its strong-arm tactics are a disingenuous attempt to validate its existence. "I think they're absolutely off base with their facts and are *playing* militant union," says Don Cassidy, a senior analyst with **Lipper**. "The fund industry is not going to be involved in this in the *short* term — the economics don't work."

Cassidy says that the AFL-CIO is opposed to Social Security reform because they want greater pension protection.

"If people are no longer pension dependent, it reduces the power of the unions. Creating the ownership culture is about 179 degrees counter-union," he says.

Others don't see the AFL-CIO's weight as being enough to push firms into changing their stripes.

Niels Holch, executive director of the **Mutual Fund Investors Coalition**, says that on Capitol Hill, the AFL-CIO's power is limited these days. "It's a Republican Congress and the AFL-CIO doesn't have as much influence under a Republican Congress. In the House the majority rules. The Senate has a lot of minority rights, but the Democrats have already noted opposition to privatization."

But that does not mean that the union can't make the firms squirm. **FundAlarm** publisher and industry critic Roy Weitz says that the AFL-CIO's tactics are not likely to mobilize the masses to boycott Schwab, but it could put pressure on the firm.

"The bigger picture is the embarrassing press coverage this could generate," Weitz says. "They are outing Schwab, or getting them to shut up and hopefully make them pay with the public at large that might disagree with their position on a potentially polarizing issue."

Weitz says the move is extremely clever, and a very efficient way for the group to leverage a small number of people and limited resources to get their message out. "Schwab shouldn't hide if they feel Social Security privatization is a good thing. They should let their views be known and let their customers decide," he says. "Otherwise they're being weasels."

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