

Roundtable: The Outlook for Retirement Income Security

By Randy Myers

One could argue that the private retirement system in the U.S. is improving. Average account balances in defined contribution plans have been rising lately, to somewhere around \$90,000 to \$100,000 depending upon which set of data you use. The growing trend of automatically enrolling workers in their plans is undoubtedly capturing some workers who in the past would not have participated in their plans. But in the view of David Certner, legislative counsel and director of legislative policy for government affairs at AARP, which advocates for people over 50, we're still suffering from a "troubling lack of progress" in ensuring retirement security for many Americans.

Certner was part of a three-person panel to speak on the subject of retirement security during the 2014 SVIA Fall Forum. He was joined by Karen Friedman, executive vice president and policy director for the Pension Rights Center, a nonprofit consumer organization, and Steven Kreisberg, director, collective bargaining, for AFSCME—the American Federation of State, County and Municipal Employees.

Forty years after passage of the Employee Retirement Income Security Act, Certner said, it's still the case that only about half of working Americans are covered by an employer-sponsored retirement plan, which can be a defined benefit plan or a defined contribution plan. And while many employers have managed the risk of funding a plan by switching from a defined benefit to a defined contribution model, that's simply pushed the risk onto individuals who are often ill-equipped to manage it. While innovative plan features like automatic enrollment and automatic increases of participant deferrals have improved defined contribution plans where they are offered, Certner said, many Americans still aren't saving enough for retirement, aren't saving at all, or aren't investing their savings wisely. For workers in the bottom third of the nation's income brackets, he said, Social Security still accounts for almost all of their income in retirement. Even for those in the middle tier, it remains their largest source of retirement income. That's one reason, he said, AARP supports the Social Security program.

Friedman credited ERISA with introducing safeguards that have helped to protect the pensions of millions of working Americans, but argued that it's time to reassess where the nation's private retirement system is heading. In particular, she lamented the ongoing loss of defined benefit pension plans, which provide a steady, insured stream of income retirees can rely on for as long as they live. Although increasingly unpopular among employers, Friedman observed that a study by the National Institute for Retirement Security, a non-profit research and education organization, indicates that defined benefit plans also have a significant positive impact on the economy that shouldn't be overlooked.

"They add billions of dollars to the economy because they provide (participants and beneficiaries) with reliable income month to month that allows them to keep buying goods and services," she said. There is no question, Friedman continued, that defined contribution plans have proved to be

a workable alternative for some people, mostly those with higher incomes who can afford to contribute at the maximum allowable levels and know how to invest that money, or who receive generous employer matches, and can resist the temptation to tap into their funds before they retire. "Still," she said, "50 percent of people have nothing to supplement Social Security, and millions who have saved haven't accumulated enough. According to a survey of consumer finances, half of all households have about \$59,000 in retirement plans, and those approaching retirement have a little over \$100,000."

The Pension Rights Center encourages employers who offer defined benefit plans to keep them, and advocates that employers who offer defined contribution plans improve them by embracing features such as automatic enrollment and automatic deferral increases—although Friedman cautioned that those measures alone would not resolve the nation's retirement problems. Ultimately, she said, the private sector may want to consider creating a new type of plan that marries the best features of defined benefit and defined contribution plans, perhaps paying out benefits in the form of an annuity. In that vein, she said her organization supports Sen. Tom Harkin's (D-Iowa) proposal to create privately run "USA Retirement Funds," which would give people who don't have access to a workplace retirement plan a chance to earn a safe, portable and secure pension benefit for life.

Kreisberg also remains a fan of the defined benefit retirement system, which benefits many of his organization's 1.6 million working and retired members. While government pension plans are often criticized as contributing to the financial woes of their sponsors, Kreisberg countered that it isn't because benefits are too rich but because of haphazard funding and urban decline.

Since most of AFSCME's workers earn modest wages—about \$45,000 a year, on average—Kreisberg said they would not find defined contribution plans a workable alternative to defined benefit plans because many wouldn't be able to save enough money and invest it properly. On the other hand, he said, it isn't likely that public employees will be the only working Americans left with defined benefit plans.

"We need new mechanisms, new ways of saving for retirement, and new ways of providing retirement income, perhaps combining the best features of Social Security with defined benefit plans," he said. By way of example, he said, the U.S. could look to Ontario, Canada, where the legislature recently approved a provincial pension plan aimed at supplementing the retirement income its residents receive from the Canada Pension Plan and other sources. The new plan is to be funded equally by employers and employees with contributions of up to 1.9 percent of pay each, and should be operational by 2017. Creating such a plan to supplement Social Security in the U.S., Kreisberg said, "might go a long way toward tackling our retirement income security crisis."