

Shields Says Income Inequality Could Be “Sleeper Issue” of 2016 Election

By Randy Myers

There are plenty of issues that could define the 2016 presidential election. Republicans and Democrats could still be fighting about taxes and spending, foreign policy, and even healthcare. But nationally known columnist and political commentator Mark Shields says that income equality could be the issue that determines who will occupy the White House next.

According to a recent white paper by the Economic Policy Institute, the average CEO now earns 273 times more than the average worker, up from 20 times in 1965. Meanwhile, a recent analysis of IRS data by economists Emmanuel Saez and Thomas Piketty found that the bottom 90 percent of American taxpayers earned only \$59 more in 2011 than they did in 1966, adjusted for inflation. By contrast, incomes for the top 10 percent of taxpayers grew by \$116,071.

“I believe there is a festering sense among voters that the economic system is rigged, and that nobody is really standing up for them,” Shields told participants at the 2013 SVIA Fall Forum in Washington, D.C. “I think income equality could be the sleeper issue in 2016, just as Iraq was the issue in 2008 that defined and determined the Democratic nominee for president.”

Shields did not predict which political party would benefit from this sentiment, observing that while Republicans are in worse shape than Democrats, neither party is popular right now. In fact, he said, a recent NBC/Wall Street Journal poll found Republicans at their lowest point in the history of the poll in terms of public favorability, with 51 percent of voters blaming them for the recent federal government shutdown, and only 31 percent blaming the Democrats and President Obama.

Still, Shields said, “This is not a time for Democrats to pop the champagne bottles; they are far from out of the woods. The Democrats are, and historically have been, the party of government; they believe it can be an engine of economic progress and social justice. But we are witnessing an erosion of public trust in government, which does not help the Democrats. Even if the Democrats win back a majority in the House, I do not have the sense that people are ready to march under any banner of enlarged public action.”

One thing that is helping the Democrats, Shields noted, is a shift in the nation’s demo-

graphics. When George H.W. Bush won the presidency in 1988, he said, the country was 89 percent white. Now it is 71 percent white. Republicans have generally been losing the battle for the hearts and minds of non-whites, in part because of the GOP’s opposition to immigration reform. Republicans won only a quarter of the Latino vote in the 2012 presidential election, Shields noted, “and prospects going forward are even more dire.”

While Americans have always been an optimistic people, Shields said that’s no longer uniformly the case. For the first time, he said, a majority of Americans believe their children’s lives will not be as bright as theirs have been, and that China, not the U.S., will lead the next century.

To reverse sentiment like that, and to improve cooperation in Washington, Shields said the country will need to find a presidential candidate “with a program that is straightforward and understandable, so that people can say, ‘Yes, I believe that’s in the best interests of the country,’ and at the same time can rekindle that optimism.” **SVIA**

The Big Picture

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66 percent. Historically, 403(b) plans have used multiple record-keeping and investment vendors, although regulatory changes in 2009 and 2012 have resulted in many plans reducing the number of vendors they use, with some moving to a single record-keeper.

About 67 percent of not-for-profit employees who have access to a defined contribution plan—usually a 403(b)—participate in their plan, and on average contribute 8.1 percent of their salary, Maffei said.

Most 403(b) plans are limited by federal regulation to using mutual funds or annuity contracts; collective funds typically cannot be used. Other than public K-12 school systems, Maffei

noted, a stable value option is available in about three-quarters of all plans. In the public K-12 market, that number is only 47 percent.

Since the Department of Labor issued rules spelling out what counts as a qualified default investment option (QDIA), the percentage of TIAA-CREF participants contributing to multi-asset class investments such as target-date funds has increased, to 34 percent in 2011 from 15 percent in 2005, Maffei said. During that same period, the percentage contributing to a principal preservation option decreased to 47 percent from 63 percent.

Like their 457 counterparts, 403(b) plans have been slow to embrace automatic enrollment. Only 14.6 percent use it, Maffei said, even though participation rates are significantly higher—by anywhere from six to 22 percentage

points—among those that do. Automatic escalation of deferrals is used by only about a third of those plans that use automatic enrollment.

Even with these innovations only 44 percent of 403(b) plan participants say they are confident of being financially ready for retirement, he said, mirroring findings in other parts of the defined contribution plan marketplace. To improve outcomes, Maffei said more plan sponsors need to improve their plan design to incorporate features such as automatic enrollment and automatic deferral escalation; switch to a single plan-management platform to reduce complexity and minimize expenses; provide participants with access to low-cost fixed and variable annuities, mutual funds, and lifetime income solutions; provide objective, outcomes-based advice and education; and offer supplemental benefits such as retiree healthcare savings plans. **SVIA**