

DC Plans: Can Everyone Win?

By Jack Towarnicky Thu, Nov 2, 2017

'If we have a retirement crisis, it may well be one of funding entitlements, maintaining existing tax preferences, and a lack of personal prioritization when it comes to saving,' writes our guest columnist, the president of the Plan Sponsor Council of America.



Many point to the increased use of DC plans triggering a “Retirement Crisis.” We can confirm that:

If America has a crisis, it is less than the one we faced just two generations ago – where fewer had employer-sponsored plans, savings were modest and “invested” in passbook savings accounts at local banks or S&Ls, work was much more physical/blue collar, and only a few workers could afford to retire before they were physically unable to continue working,

Millions of Americans are successfully saving and preparing for retirement,

As a nation, after the Pension Protection Act of 2006, we are making great strides for those workers whose employer offers a plan, however,

The retirement paradigm keeps changing. In the past we might seek to finance 15 or so years in retirement whereas today, babies born in developed countries may well live, on average, to see their 100th birthday.

We need to define terms. Most benefits professionals would define a “win” as financial preparation and decision-making skills sufficient to maintain a pre-retirement standard of living. “Everyone” doesn’t include “everyone.” Many of us would exclude those workers who die prematurely or suffer a work-ending disability. Others might define “win” to include a second career, phased retirement, or sacrificing some income for increased periods of leisure.

So, can “everyone” win in the DC system? Yes, we think potentially as much as in a DB system! That’s particularly true when one considers that we failed to adequately fund our DB promises – the unfunded liability for private and public employer plans, income replacement, and retiree medical totals trillions of dollars! I like to say, “Pension promises without funding are mere dreams.”

Whether DB or DC, unless we fund our Social Security and Medicare promises, retirement preparation will become that much more elusive to America’s wage earners. Assuming we meet our commitments, there are a number of savings opportunities, tax preferences, investment, and payout choices. But that only works if workers consider retirement preparation a priority and take action to save.

And, “can” does not equal “will.” That’s true for DC or DB. The barriers are numerous: debts, bad financial decisions, lack of prioritization, financial illiteracy, etc. But “can” is correct. Every wage owner has had

access to a tax-favored retirement savings account since 1982 – the Individual Retirement Account. That’s 35 years.

So, if we have a “retirement crisis,” it may well be one of funding entitlements, maintaining existing tax preferences, and a lack of personal prioritization when it comes to saving.

© 2017 PSCA. Used by permission.