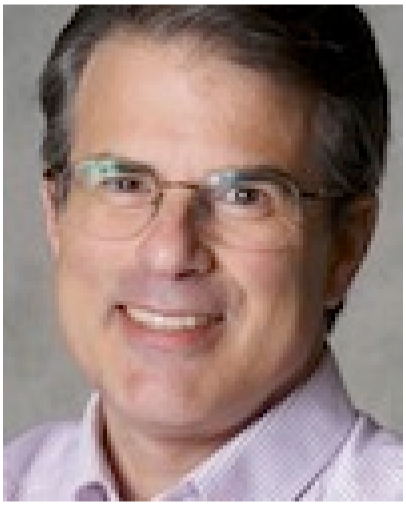
Is Employer-Sponsorship of Plans Suboptimal?

By Kerry Pechter *Wed, Jun 10, 2020*

'In the wake of the pandemic, retirement and health insurance coverage are likely to be delinked from employer-provided plans in many countries,' writes Olivia Mitchell, executive director of the Pension Research Council at the Wharton School.



Olivia Mitchell, a professor at the Wharton School and executive director of Wharton's Pension Research Council, knows a lot about retirement systems. If she doesn't know something, she can call any of the defined contribution or defined benefit experts she knows, from Philadelphia to Frankfurt and Singapore to Sydney.

In a recent **article**, "Building Better Retirement Systems in the Wake of the Global Pandemic," she suggests that we need to rethink the idea of having employers sponsor retirement plans—and forcing them to deal with all the associated regulations and financial ramifications.

"Tying workers' pensions (and in some countries, health insurance) to an employment relationship is quite risky when firms go out of business and worker mobility results," she writes. "Therefore, in the wake of the pandemic, retirement and health insurance coverage are likely to be delinked from employer-provided plans in many countries, instead of continuing what was once termed 'industrial feudalism' under which workers were discouraged from leaving their firms for fear of losing their benefits."

Olivia Mitchell

In an interview this week, we asked Mitchell what a non-employer plan might look like? "A multiple employer system could be one model," she told *RIJ*, "but it would only allow portability for employees across firms in each system. A state-run system could be of interest, but only insofar as employees remain employed in that state."

In her paper, she mentions tontines, as well as Singapore's mandatory deferred income annuity, and shares the policy recommendations that she and other pension experts have made:

- Generate and make available better data about mortality and morbidity patterns. These could help insurers price longevity risk around the world.
- Develop guidelines for measuring and forecasting social security and pension assets and liabilities, as well as the assessment of long term care needs for the aging population.
- Encourage delayed retirement, "delicately where possible." One study has shown that older people might claim their social security benefits later and work longer if they could receive a partial lump sum when they finally claimed, in exchange for the deferral.
- Create a centralized database that helps mobile workers track their pension accounts as they move across employers.
- Improve the "gig economy," since it gives older people flexible, part-time, and on-demand work opportunities. Though pension, health, and other employee benefits have traditionally not been provided to gig workers, that situation has begun to change.

Asked which of the systems she admires most, of those she's seen around the world, she said, "As to which is the best: that's a hard call. Each country has a different first pillar social security, tax, and social insurance system, so the pension platforms and designs in each must be integrated with these institutions as well. So what works in Australia might not work in the US, without some major redesign."

It turns out that her type of defined contribution plan is the one she participates in.

"My favorite U.S. platform is the national educational retirement system that covers many of us in higher education," she said. "Typically employees have a choice of a handful of money managers who are vetted/selected by the fiduciaries of each employer, but the pension accounts are fully portable across all university/research/medical system affiliates, with a national purview.

"TIAA/CREF was the first mover here, followed by many other fund managers across the land. The participating employers' payroll systems are usually the conduits for the contributions to the custodian who allocates the funds to the requisite accounts," Mitchell added. "It allows for national labor mobility, flexibility over contributions, and the potential for annuitization."