
Ghilarducci book calls for new breed of DC plans

By Editorial Staff Thu, Oct 6, 2016

Economist Theresa Ghilarducci sees the existing 401(k) system as a half-full glass; she proposes a new glass, mandatory, without leakage, less tilted to high-earners, centrally managed and leading to an income annuity at retirement.



New School economist Teresa Ghilarducci, once dubbed the “most dangerous woman in America” by conservative pundit Rush Limbaugh for her criticisms of the 401(k) industry, has published “Rescuing Retirement: A Plan to Guarantee Retirement Security for All Americans” with co-author Hamilton “Tony” James, president of private equity giant Blackstone.

The book, published by Disruption Books, outlines “a deficit-neutral proposal to ensure that all workers can save enough to retire through mandated, individually-owned, and effectively-invested Guaranteed Retirement Accounts,” according to a press release. “Left unaddressed, the authors emphasize, the strain of a newly poor population of senior citizens would devastate federal, state, and local budgets for decades to come.”

Ghilarducci and others have identified weaknesses in the existing 401(k) system. Plans typically work best for long-tenured employees at large companies that offer low-cost plans and generous matching contributions. But many small companies don’t offer them at all, and at any given time around half of the full-time work force has no access to a plan.

Those weaknesses, which include inconsistent fees and investment options, vulnerability to “leakage” during job changes, and the absence of a mechanism for converting savings to retirement income, have inspired calls for statewide or nationwide defined contribution plans that don’t rely on each employer’s willingness or unwillingness to offer a plan.

The U.S. government has proposed its own universal auto-enrolled IRA program for small business, call MyRA, and states like Washington and California have taken steps toward requiring all their employers to offer an auto-enrolled IRA or qualified plan.

Components of the Ghilarducci-James plan include:

Universal coverage. Every American worker would have a Guaranteed Retirement Account, individually owned as in a defined contribution plan but pooled and invested in professionally managed funds, as in a defined benefit pension.

Costless for families at or below median income. The plan would redistribute the current tax expenditure for retirement savings, which favors those in higher tax brackets, more evenly across the income distribution.

Deficit-neutral. The program would save money by using existing Federal payment infrastructure.

Guaranteed lifetime income. At retiring, savings would be converted to an annuity.

Bipartisan appeal. This model keeps accounts under personal control, distributing savings based on the amount invested, not based on income, and without impacting the budget or raising taxes.

The publication of the book follows the authors' March 2016 white paper, "A Comprehensive Plan to Confront the Retirement Savings Crisis," and their January 2016 New York Times op-ed, "A Smarter Plan to Make Retirement Savings Last." It also coincides with the launch of a website dedicated to the plan and its promotion, rescuingretirement.org, and a social campaign driven by the hashtag #fixretirement on Twitter and Facebook.

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