Meir Statman recommends mandatory national DC plan

By Editor Test *Thu, Feb 14, 2013*

“It is time to switch from libertarian-paternalistic nudges to fully paternalistic shoves,” writes Meir Statman, a professor of finance at Santa Clara University, in the draft of a new paper called, “Retirement Income for Non-Savers.”

The author of the recent book, *What Investors Really Want*, is calling for a mandatory, universal workplace-based defined contribution plan in the U.S. that would make Americans less dependent on Social Security for retirement income.

“It is time to switch from libertarian-paternalistic nudges to fully paternalistic shoves,” writes Meir Statman, a professor of finance at Santa Clara University in California and Tilburg University in the Netherlands, in the draft of paper called, “Retirement Income for Non-Savers.”

Automatic enrollment, which has been shown to increase 401(k) participation, is not strong enough a measure to make a difference in the amount of savings available to most people at the end of their working years, Statman argues.

He recommends tax-deferred private savings accounts similar to 401(k) and IRA accounts but mandatory and inaccessible to account owners before they reach retirement age. Locking up the assets until retirement would prevent so-called “leakage” when employees change jobs.

Retirement savings would be paid out in life annuities under Statman’s plan, except for individuals who can demonstrate that they have enough savings to self-insure against longevity risk.

The current system, in which fewer than half of U.S. workers have access to a defined contribution plan and many participants contribute too little, produces a few retirees with more savings than they need and many others with much less than they need, he writes.

“Among people aged 60 to 69, only 7% took annual distributions exceeding 10% of their balances, and only 18% made any withdrawals in a typical year,” Statman writes. “Among non-retirees, 33% expect that Social Security would be a major retirement funding source. But 57% of retirees report that Social Security is a major source of retirement funding.”

Mandatory savings would yield broad benefits, Statman claims. “Mandatory defined contribution accounts would benefit savers by alleviating the burden on adult children who support destitute non-saving parents and the burden on taxpayers who support destitute non-savers through taxes and transfer payments.”

Australia and Israel already have well-developed mandatory savings plans, according to the paper. In Australia, employers contribute 9% of pay (12% by 2020) each year to employee accounts and employees add another 3%, on average.

In Israel, at least 18.33% of employee earnings go into a mandatory savings plan (5-7.5% from employers, 5-7% from employees and 8.33% more from employers, with the last portion accessible upon either layoff or retirement).