Retirement Income
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By Kerry Pechter *Thu, Mar 3, 2016*

Economist Teresa Ghilarducci of The New School wants a national, mandatory retirement savings plan to complement Social Security--and to replace the ERISA-regulated 401(k) system. I agree that the 401(k) system has issues, but I think we should fix Social Security first.

In the U.S., there are more than a few highly articulate, liberal female advocates for the economic interests of under-paid, under-saved middle and lower-middle class workers. Senator Elizabeth Warren (D-Mass) is perhaps the best known (or, depending on your politics, most notorious).

At the risk of leaving out many worthy people, I'll mention only a few (in alphabetical order, with specialties): Anna Maria Lusardi (financial literacy), Teresa Ghilarducci (retirement plans), Cindy Hounsell (women), Alicia Munnell (retirement preparedness), and Barbara Roper (consumer protections).

Of this group, Dr. Ghilarducci (right) has been making news lately with a book, *How to Retire With Enough Money (*Workman*, 2015),* a recent *New York Times* op-ed piece and, this week, a report co-authored with Hamilton "Tony" James of The Blackstone Group called "**A Comprehensive Plan to Confront the Retirement Savings Crisis**."

As I understand her proposal, Ghilarducci, an economist who runs the Schwartz Center for Economic Policy Analysis at the New School in Manhattan, proposes a mandatory defined contribution savings plan with individual accounts, a choice of pension-style asset managers, and delivering a life annuity at retirement.

According to the report description of her Guaranteed Retirement Account:

- Each account would be funded by an annual contribution of 3% of income (half from employer, half from participant).
- The required contribution would be applied to income up to $250,000 a year.
- Those earning under $40,000 a year would have their contributions offset by a $600 tax credit.
- To smooth investment outcomes and reduce sequence risk, the U.S. government would guarantee a minimum return of 2% on each participant's contributions.
- Like Social Security, invested assets would be available only as annuities, not as lump sums or prior to the retirement date.
- Contributions would be invested and managed by a variety of private asset managers using defined benefit pension principles and taking advantage of the higher returns possible through alternative investments.
- Survivors would receive a death benefit during the accumulation period but not during the income period.
- The plan would replace the voluntary system of ERISA-regulated 401(k) plans in the U.S., eliminate the $100 billion+ annual tax expenditure for retirement savings, eliminate the overhead of DC plans for plan sponsors, and use the savings to pay for the tax credit for those earning under $40,000 and the employer contribution.
- The Social Security Administration would administer the payout of the annuity.

Dr. Ghilarducci believes that this type of plan is needed because, in her opinion, the current DC system doesn't adequately fill the retirement security vacuum left by the slow death of the defined benefit system, doesn't reach more than half of full-time U.S. workers at any given time, and whose tax benefits are highly regressive.

In private, many people agree that the status quo is a mess—either because of its needless complexities, inconsistencies and inequities or because of the ambiguities of its regulation by the Department of Labor, or all of the above. One of the 401(k)'s principal private-sector spokespersons once joked publicly that ERISA stands not for Employee Retirement Income Security Administration but for "Every Ridiculous Idea Since Adam."

Jokes and complaints notwithstanding, the many people whose livelihoods depend on the DC system (and its byzantine nature) are sure to defend it to their deaths. The opposition to the DOL's fiduciary proposal would be nothing compared with the opposition to ending the DC system.

I agree with Dr. Ghilarducci that the DC system has serious shortcomings. The popularity of Roth conversions and Roth 401(k)s seems to me like a strong hint that tax-deferral creates more problems than it solves. But you have to pick your battles. I would rather see political energies spent on reforming Social Security and removing the cloud over its future. If we wait much longer to fix the proverbial third rail of American politics, it might be too late.