
Seven Wishes for the Year Ahead

By Kerry Pechter *Wed, Dec 25, 2013*

What will happen in the retirement industry in 2014? Beats me. I can only share a few of the things I hope might happen.

The earth has circled the sun again and, without stopping for breath, has begun yet another lonely lap around the solar stadium. The solstice is past; a pale new year awaits. What will happen in the retirement industry in 2014? Beats me. But I *hope* that:

Someone will engineer a plan to stabilize Social Security. We need to solve the Social Security question soon, and not by shrinking the program. Young people need their confidence in it restored. Older people need to appreciate that it protects them against sequence of returns risk, which is to say that, unlike the markets, it prevents the division of neighbors into retirement winners and losers.

Interest rates will rise without toppling equity prices. A decade ago, Alan Greenspan played a game of Jenga with the short-term rate, raising it in quarter-point increments. The strategy worked for a while, but eventually the stock market tumbled like a tower of Jenga blocks. Maybe we've learned a lesson or two since then. Good luck, Chairman Yellen!

The Department of Labor issues a sagacious re-proposal of the fiduciary rule. Granted, mandating a fiduciary standard for all financial intermediaries seems a bit quixotic. But it does seem reasonable to me that more of the ERISA restrictions and protections that apply to 401(k) money should follow that money when it rolls over to an IRA, and/or for as long as it continues to grow tax-deferred.

Employers start contributing more money to their employees' retirement accounts. I once worked for a company that contributed 10% of pay to employees' 401(k) plans *and* matched a chunk of the employee contributions. If plan sponsors are concerned about their employees' retirement security, they need to try this—even if means carving some or all of the contribution out of take-home pay. Nudges and calculators aren't enough.

Deferred income annuities find their way into 401(k) plans. Participants need the option of allocating at least part of their contributions to an account that will produce guaranteed income 10, 15 or 20 years hence. It's unrealistic to expect many people to buy annuities at retirement; the loss of liquidity is too drastic and interest rate risk is too high.

The public-pension funding crisis gets resolved in a non-divisive way. The current crisis is a symptom of the 2008 crash, low interest rates and the erosion of the tax bases of America's towns and cities. It's a shame to see retired firefighters, bus drivers and policemen ridiculed for expecting to receive the pensions they legally bargained for.

Americans elect smarter politicians in the 2014 elections. We need fewer hacks and ideologues, and more men and women with the brains, courage, and large-mindedness necessary to collaborate on wise,

far-sighted solutions to our problems, including our retirement problems. Too many elected officials seem to know almost nothing about the way our financial system works (and even less about how insurance works).

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