
She's Not a Captive Academic

By Editor Test *Wed, Jul 25, 2012*

For New School economist Teresa Ghilarducci, the 401(k) system, like the inert bird in the classic Monty Python pet shop scene, is a dead parrot. Her independence is refreshing.

The shortcomings of our 401(k) system bother Teresa Ghilarducci. She won't stop sounding an alarm about them. And for that, a few years ago, a fat cigar-smoker with a vast radio audience called her "the most dangerous woman in America."

There's one thing you can't call her, however. And that's a "captive academic."

Ghilarducci, an author and economist at the New School of Social Research in Manhattan, denounced the defined contribution system in the U.S. in an opinion piece in The Week in Review section of *The New York Times* last Sunday.

"Basing a system on people's voluntary saving for 40 years and evaluating the relevant information for sound investment choices is like asking the family pet to dance on two legs," she wrote. "This do-it-yourself pension system has failed. It has failed because it expects individuals without investment expertise to reap the same results as professional investors and money managers."

As a solution, she proposes replacing the 401(k) system with a kind of mandatory national cash balance retirement plan—a hybrid of DB and DC. She calls it "a way out that would create guaranteed retirement accounts on top of Social Security. These accounts would be required, professionally managed, come with a guaranteed rate of return and pay out annuities."

Personally, I don't agree with everything that Ghilarducci wrote. She claims that someone who earns \$100,000 at retirement needs \$2 million beyond Social Security in savings to maintain living standards in retirement; a retiree with "an income-producing spouse and a paid-off house" will need less.

This is a straw man. I have never heard anyone claim such a high multiple. A recent Aon Hewitt report estimated that each person will need 11x final salary plus Social Security. The old ING "number" commercials showed suburbanites carrying a number north of \$1 million with them on a rectangle of white poster board. (I recently told Brett Hammond (formerly of TIAA-CREF, now of MSCI) that my wife and I would each have about twice final salary in savings at retirement; he smiled and said that we were somewhat short of TIAA-CREF's benchmark rule-of-thumb.)

But I don't disagree with Ghilarducci's basic facts. And, if you work in the retirement plan field, you probably don't either. Every day, I read reports—from within the industry itself—showing that most Americans don't earn much, don't understand money or investing, can't discipline themselves to save, and arrive at retirement (voluntarily or otherwise) with barely enough cash to zero-out their credit card balances. We all know this.

The industry clearly doesn't agree with her solutions, however. For Ghilarducci, the 401(k) system, like the inert caged bird in the classic Monty Python pet shop sketch, is a dead parrot. Replacement is the only cure. For people who work *in* the 401(k) system, or for whom it works well, the parrot is merely resting. The system is basically healthy and can be made to serve the average worker better through new defaults, disclosures and education. Ghilarducci's 401(k) glass is more than half empty. The industry's is more than half full.

The purpose of this column, though, isn't to rehash the pros and cons of the 401(k) system. We can save that for another day. My point is that Ghilarducci is just doing her job as an academic. In the tradition of the school that employs her, she's a muckraker and a critic and rabble-rouser. She's a thorn in the side of the entrenched status quo. To her credit, she's not a *captive academic*.

You've heard of "captive regulators"—regulators who lose their adversarial spirit and, like hostages suffering from Stockholm syndrome, adopt their captors' beliefs. We have lots of those, occupying some of the highest watchdog posts in the land. Similarly, the 401(k) system has lots of captive academics whose research happens to support the goals and interests of the 401(k) industry itself, and who are lionized for it and I assume, at least indirectly, highly compensated for it. Professor Ghilarducci, bless her angry heart, isn't one of them.

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