
Time to Redefine Defined Contribution?

By Ben Norquist *Thu, Jan 30, 2014*

The shortcomings of the voluntary retirement savings system in the U.S. should no longer be ignored, writes our guest columnist, the co-founder, president and CEO of Convergent Retirement Plan Solutions LLC, a participant training provider.

Without question, the defined contribution industry has done Americans much good over the years. Nonetheless, it routinely ignores its own flaws. The leaders of the DC industry would do well to confront those shortcomings head on, rather than remain content with the status quo.

Two glaring challenges for the current DC model are:

- The need to expand plan access to many more of the nation's workers.
- The need to make the system more efficient (i.e., generate more retirement income per dollar of savings).

From a macro perspective, the DC industry has been a moderate success and has the potential to become much better. (That's saying a lot, because the 401(k) was never designed to be so central to Americans' retirement security.) But if we want the DC industry to shoulder the bulk of our nation's retirement financing needs in the future, we need to explore options that will dramatically expand coverage and significantly increase efficiency.

Though I own a training firm, I respectfully disagree that more participant training and education is the solution. While I agree that we need informed and knowledgeable participants, I don't believe that participant education will solve the lack of universal access and the systemic inefficiencies.

Do we really believe that participant self-direction is the road to broader access and retirement security? Do we really believe that employers are the ones best suited to fulfill the arcane plan administrator and fiduciary roles defined under ERISA?

I don't claim to know all the answers, but I believe two truths are self-evident:

- These problems exist.
- Ignoring them won't make them go away.

While we may agree or disagree with the assertions or conclusions in the American Academy of Actuaries' recent whitepaper, I believe it can and should stimulate a healthy, broad-based discussion about the challenges facing both the DC industry and our nation as a whole.

Unfortunately, most of the news and commentary that is published on this topic either unsparingly attacks the entire DC concept or blindly defends the DC status quo. Neither approach, in my opinion, will help move us forward.