Leadership Letter

It's Unavoidable — Each Owns Their Own Retirement

Tomorrow's retirement will be what each of us makes of it.

By Jack Towarnicky

Every change, every proposal, will ultimately delegate ownership of retirement preparation to ourselves.

So, design your plan so that workers are encouraged to embrace the opportunity your plan presents.

The "Baby Boom" generation has seen a lot of change when it comes to retirement:

- "It's time to retire retirement."[1]
- "Retirement is not what it used to be."[2]

Clearly, tomorrow's retirement will be what each of us makes of it.

Some suggest current day retirement savings plans are lacking.[3] Others suggest a "crisis" looms in continuing the status quo.[4] But, be careful. Recognize that the accumulated assets in today's 401(k) accounts reflect a forty-year journey and many changes.[5] So, we all know the 401(k)'s past is not its future. And, depending on your perspective, the future of "retirement," however Americans choose to define it, looks very bright compared to Americans' retirement past.[6]

Much of this bright future is attributable to Americans who realize that they, themselves, own their own retirement preparation. Over a decade ago, Professor Edward Zelinsky captured this in his book, *The Origins of the Ownership Society: How the Defined Contribution Paradigm Changed America.*[7]

"…the defined contribution paradigm has become the primary framework for retirement savings and, more broadly, a fundamental tenet of tax and social policy. …Individual retirement accounts (IRAs) and 401(k) arrangements are today central features of American life… individual accounts have spread beyond the realm of retirement savings to other arenas of social and tax policy… the early stages of a comparable transformation of medical coverage… the health savings account (HSA)…"

"In the private sector, the expansion of the individual account paradigm will continue… In contrast, there will be increasing contention about public employees' defined benefit coverage… Equally disputatious will be the debate about efforts to expand the use of HSAs, a debate which addresses the fundamental implications of the defined contribution paradigm: the merits of individual ownership and control, the benefits of risk-pooling, the costs of adverse selection, and the distributional consequences of individual accounts."

He fails to mention the other, long-standing, major, defined benefit pension plan controversy: the multi-employer pension plan.[8]

In the final chapter of his text, Professor Zelinsky confirms:

"There is today in the academy no more heated debate than whether man is the rational, competent utility-maximizer of traditional economic theory (capable of pursuing his own interests) or the cognitively-impaired being of behavioral economics (potentially benefitting from a heavy dollop or paternalism). The answer for my analysis is that he is both…in many settings, people are rational self-maximizers, responding to incentives and disincentives in methodological, consistent and sensible ways. The power of the behavioral perspective … is to demonstrate that irrationality, when it occurs, often occurs in systematic and predictable (if not sensible) ways. In short, we must search for essentially noncoercive ways of guiding individuals' retirement savings decisions, nudging them over any cognitive hurdles without succumbing to the temptation of overbearing paternalism."

"…the defined contribution paradigm … corresponds to Americans' cultural norms about individual ownership and control. The causes of the defined contribution society are deeply-rooted and now self-reinforcing. "

Standard economic theory confirms that workers earn all the rewards they receive and that access to and employer contributions to a 401(k) or an HSA are earned by the worker as part of wages. Because of the associated tax preferences, the lowered administrative expense from economies of scale, and the access to a plan with features not available in the individual marketplace, your offer of a 401(k) or 403(b) plan significantly enhances the total rewards your workers receive — well beyond providing a comparable level of added wages. Similarly, all Social Security benefits are earned by workers — either through the worker or the employer contribution, which is also part of wages. While there may be redistribution when retirement monies are funneled through social programs like Social Security and Medicare, there is no question where the burden of financing retirement will always, ultimately lay.

Each owns their own retirement. So, remember to include "ownership" in participant education efforts.

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[1] K. Dychtwald, T. Erickson, B. Morison, It's Time to Retire Retirement, Harvard Business Review, March 2004. "… Skills, knowledge, experience, and relationships walk out the door every time somebody retires — and they take time and money to replace. … Baby boomers will be the most financially powerful generation of mature consumers ever; today's mature adults control more than $7 trillion in wealth in the United States — 70% of the total. … we've concluded that the concept of retirement is outdated and should be put out to pasture in favor of a more flexible approach to ongoing work, one that serves both employer and employee. … companies can … (move) from a rigid model where work ceases at a certain age to a more flexible one where employees can become lifelong contributors…." Accessed 7/20/19 at: https://hbr.org/2004/03/its-time-to-retire-retirement

[2] B. Buford, "Why retirement isn't what it used to be, re-orient your second half to be more focused on what truly matters", Bizjournals.com, 6/15/17. "… why has the idea of moving from success to significance gained such traction and become so popular? … because of three converging factors. The first is longevity. … Today, when you reach 50 you have 30 bonus years. … this generation has watched the experiment we have done with retirement, and we just don't like the idea that our best years are behind us and we're supposed to be out at pasture. … (and) we are, for the most part, knowledge workers. As a result, that allows us to continue to make a positive contribution for a very long time. …your influence grows over time from your effective work and all of a sudden the potential contribution soars. That formula is why I believe that the most productive time in our lives these days is between the ages of 50 and 75. That's captivating for people to realize my best years aren't behind me, and my best contribution and perhaps my most creative contribution might be ahead. …" Accessed 7/20/19 at: https://www.bizjournals.com/bizjournals/how-to/growth-strategies/2017/06/why-retirement-isnt-what-it-used-to-be.html

[3] S. Gandel, Why It's Time to Retire the 401(k), 10/9/09, Accessed 7/20/19 at: http://content.time.com/time/magazine/article/0,9171,1929233,00.html

[4] J. Zweig, Forget the 401(k). Let's Invent a New Retirement Plan, 2/10/19, Accessed 7/20/19 at: https://www.wsj.com/articles/forget-the-401-k-lets-invent-a-new-retirement-plan-11549854600 ; See also: H. Bradford, Teresa Ghilarducci, Tony James outline plan for mandatory retirement accounts, Pensions and Investments Online, 2/6/18. "… mandatory retirement savings accounts, … employers and employees to each contribute 1.5% of pay into government guaranteed accounts that would be managed by approved asset managers and paid out as an annuity. … The key part of it is investing like pension funds, …" Accessed 7/20/19 at: https://www.pionline.com/article/20180206/ONLINE/180209868/teresa-ghilarducci-tony-james-outline-plan-for-mandatory-retirement-accounts

[5] J. Towarnicky, What's The Story? Part 1, 12/19/18, Accessed 7/20/19 at: https://www.psca.org/blog_jack_2018_58

[6] A. Biggs, The Washington Post Gets Retirement Wrong, 10/9/17. "… only 6.9 percent of Americans aged 65 and older have incomes below the poverty line. The poverty rate among working-age Americans is roughly double that level; among children, it's at least triple. … For the typical new-retiree household, the real value of Social Security benefits increased by 25 percent from 1989 to 2007. But the value of benefits from private retirement plans — meaning traditional pensions, IRAs, and increasingly 401(k)s and similar plans — rose by 75 percent. … it is preposterous to claim that America's private retirement-savings system is failing." Accessed 7/20/19 at: https://www.nationalreview.com/2017/10/washington-post-retirement-story-all-wrong/ See also: J. Towarnicky, Retirement in America — A Life Of Poverty? 06/29/18, Accessed 7/20/19 at: https://www.psca.org/blog_jack_2018_32, Retirement in America — Individual Account Retirement Savings Plans ARE Good Enough! 7/5/18, https://www.psca.org/blog_jack_2018_33, Can ≠ Will: Yesterday's 401(k) ≠ Tomorrow's 401(k), 7/9/18, https://www.psca.org/blog_jack_2018_34, The Sky is Not Falling on Older Americans, 8/27/18, https://www.psca.org/blog_jack_2018_40

[7] E. Zelinsky, The Origins of the Ownership Society: How the Defined Contribution Paradigm Changed America, The Oxford University Press, 2007

[8] J. Towarnicky, I'm Dreaming of a … Well Funded Pension, 12/6/18, Accessed 7/20/19 at: https://www.psca.org/blog_jack_2018_55