The DB to DC Shift – Prospects and Perils

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The DB to DC Shift

Pluses

Portability

Individual Investment Control

Transparency

Higher Retirement Incomes for Some

Better Old-Age Work Incentives

The DB to DC Shift

Minuses

Participation
Contributions
Investments
Annuitization
Uncle Sam's Liability

DC Minuses

Lack of Participation

30 Percent of Eligible Workers Don't Participate

DC Minuses

Low Contributions

20 Percent of Participants Hardly Contribute

Up to 50 Percent Don’t Contribute
Enough to Capture Employer Match

DC Minuses

Crazy Investing

20 percent of DC Assets Invested in Employer Stock

Only Half of Participants Hold Any Equities

DC Minuses

Failure to Annuitize

Only 4 percent of DC Participants Convert their Account Balances to Annuities at Retirement

Annuities that are Purchased Generally Are Not Inflation-Indexed

DC Peril

Government Is Now Establishing Defaults

Participation Defaults

Contribution Defaults

Investment Defaults

DC Peril

Default Life-Cycle Funds Aren’t Much Protected Against the Downside

DC Peril

Government Is Now Implicitly Obligated to Ensure the Retirement Saving It Has Endorsed/Required Pays Off for the Middle Class

This is Why the Federal Reserve Is Now Pegging/Supporting the Stock Market

Targeting Asset Prices Has Already Led to Massive Money Creation – Can Culminate in Hyperinflation

DC Peril

Social Security Is Going Broke and Is Cutting Benefits in Ways Most Workers Don't Understand

Income Taxation of Benefits

Rising Age of Full Retirement

Medicare Part B Premiums

DC Peril

If Social Security Is Going Broke and DC is the Government Sanctioned Solution, Why Isn't Everyone in a DC Plan?

Why Do Employers Get to Decide Who Gets a DC Plan, Who Gets What Investment Choices, and Who Gets What Tax Breaks?

Are Our Employers Our Friends? Ask Former Enron, Country-Wide, and Bear-Stearns Employees

The DC Fix

Fix the DC System and Phase Out Current Social Security System

The DC Fix

Government Eliminates Tax Deductibility of Employer-Based DC Plans

Uniform DC Accounts Called PSAs (Personal Security Accounts) Established for All Americans

The DC Fix

8 Percent of Each Worker's Wages Are Contributed

Government Contributes on Behalf of Unemployed and Disabled 8% or their Benefits

The DC Fix

Workers' Contributions are Split 50-50 with Spouses and Legal Partners

This Protects Non-Working/Low-Earning Spouses/Partners

The DC Fix

Government Makes Matching Contributions on a Progressive Basis

The DC Fix

All PSA Balances Invested by Government at No Cost to PSA Participant in a Global Market-Weighted Index Fund of Stocks, Bonds, and Real Estate

The DC Fix

Government Makes Matching Contributions on a Progressive Basis

The DC Fix

Government Guarantees PSA Account Balances at Retirement Equal at Least Past Contributions Adjusted for Inflation

I.e., Government Guarantees a Zero Cumulative PSA Real Return

The DC Fix

Between 57 and 67 PSA Account Balances Gradually Sold Off by Government and Used to Purchase PSA Inflation-Indexed Annuities Sold by the Government

The DC Fix

PSA Annuities are Deferred Until Age 62

Hence, One Starts Receiving Annuities at Age 62 and By Age 67, One Has Received All her Annuities

The DC Fix

PSA Account Balances that Have Not Yet Been Annuitized are Bequeathable

The DC Fix -- Advantages

Government Guarantee is Minimal and Explicit

Compulsory Participation – Everyone is Included

No Role for Employers

System is Progressive

No Wall Street Loans, Fees, or Commissions

Automatic International Diversification

Compulsory Annuitization

Private Accounts Without the Risks and Costs

The DC Fix -- Advantages

Phase Out of Social Security System Can Be Introduced at Same Time PSA System is Introduced

Phasing Out Social Security is Simple –

Just Fill in Zeros in Earnings