

### **Suggestions for the Retirement Task Force**

Retirement security requires a stable, secure, and adequate income that allows seniors to live with independence and dignity. A secure retirement provides guaranteed lifetime income which does not erode or evaporate due to inflation, market fluctuation, economic meltdown, business failure or management organization fraud. **Any proposed private sector pension program must ensure that every citizen in Wisconsin can have a safe and secure retirement.**

POWRS\* believes that to create such a private sector program, the Task Force needs to consider all options available and look at what has worked, and not worked in the past. One successful program is the Wisconsin Retirement System (WRS). WRS is one of the best public pension programs in the country due to its solid program design and good management practices. WRS can be a model for a private sector defined benefit program and it can suggest good design features for any defined contribution program. Below are suggested features for creating the kind of program employers and employees need and deserve.

1. The program exists and is operated for the SOLE BENEFIT of participants. The management organization has a FIDUCIARY DUTY to the participants. The individual account contributions belong to the individual participants and are not part of the state budget, available for public use, or in any way exploited for politically-motivated purposes.
2. The program's operation and investments are professionally managed by an independent public or private (preferably non-profit) entity. The program leverages economies of scale and pools assets across large numbers of business and individual participants to share risk, mitigate market volatility, and control costs and management fees. Individuals have choices of investment options and degree of risk.
3. Participating businesses have no control or responsibility beyond making contributions to individual employee accounts. This avoids problems with future business legacy costs, downsizing, bankruptcy, or malfeasance. It assures more safety for individual participants and less risk/cost for employers.
4. The program produces stable, lifetime, guaranteed retirement income either through a defined benefit (i.e. trust fund) program or guaranteed individual annuities in a defined contribution based program.
5. Individual retirement income is adjusted for inflation or changing economic conditions using cost of living adjustments or a sharing of program investment returns/losses with retirees.
6. Individual and company contributions plus investment earnings pay all costs and retirement benefits. Tax dollars are NOT obligated or used for program operations.

7. The program includes mechanisms for participant and public oversight of operations and investment consistent with political isolation and appropriate management independence.
8. The program is open to all Wisconsin businesses and non-profit organizations. The self-employed and individuals working for non-participating employers may also participate.
9. The program provides educational assistance on investment decision making and provides marketing information to employers and employees on the value of participation.

## **Other Important Considerations**

**Voluntary vs. involuntary participation:** Research has shown all forms of savings and retirement programs work best with mandatory participation. The retirement crisis can only be overcome when all employees have access to programs that offer secure retirement. Hence, a good program will require all employers to offer reasonable programs to meet employee needs. Any program should automatically enroll individual employees or require an affirmative “opt out” option. Payroll deduction should be available with any program.

**Failure of 401(k)s:** Defined contribution 401(k) programs haven’t worked well for most people. With voluntary individual savings plans, people don’t, or can’t, save enough. What a person gets at retirement, and how long it lasts, depends entirely on how much they save and the accumulated investment returns. All risk and responsibility rests with the individual. Individual savings do not share risks, mitigate market volatility, leverage economies of scale, or control costs and investment fees. They do not provide guaranteed lifetime income without additional cost. **If defined contribution plans worked well, there would be no retirement crisis.**

**Retirement Savings vs Retirement Pension:** In contrast to individual retirement savings programs, group pension programs (defined benefit programs like WRS) share investment risk across all participants. By pooling risk and leveraging economies of scale these programs can provide more secure, stable, guaranteed lifetime retirement income at lower cost.

**Added Value:** The purpose of any proposed private sector retirement program is to address the retirement crisis. Therefore, any proposed program should provide additional “value added” features *not currently available* with existing retirement options. Currently, any company or individual can utilize tax deferred savings accounts and numerous financial service businesses offer these programs. Obviously, these existing programs are not adequate to address the retirement crisis. **A state program should provide BETTER options for employers and employees by making saving for retirement easier, safer, and more successful.**

*\*Established in 2011, POWRS is a statewide group of volunteers who advocate for protecting the WRS, Wisconsin’s public employee retirement program. We also enthusiastically support retirement security for all Wisconsin citizens by promoting better retirement options for private sector employees and businesses. Our “Retirement for All White Paper” proposes creating a private sector program modeled on the WRS. The updated (2019) white paper is available at [www.POWRS.org](http://www.POWRS.org).*