

Retirement for Everyone... A Better Future for Wisconsin

“...as soon as 2025, as many as 30 million Americans, many of them originally middle class, will find themselves either poor or “near-poor.”

From “How to Solve the Retirement Crisis: A Politico Working Group Report”

What is the problem? Retiring with dignity and financial independence was once part of the American Dream, but today many seniors will have to continue working or spend their “golden years” in poverty. They will struggle to live hand-to-mouth, unable to handle medical emergencies, unexpected expenses, maintain their homes, or remain financially independent.

A growing elderly population with inadequate income will be a hardship for those individuals. However, the impact on families, local communities, and the Wisconsin economy will also be significant. It will reduce consumer spending, hurt small business, and increase the need for tax-supported social and medical programs.

Proof of this “retirement crisis” abounds. Many sources document the following problems.

- Only 42% of private sector workers age 25 to 64 have a company pension.
- Only half of workers have access to a 401(k) plan at work and only about 30% take advantage of that plan.
- Three-fourths of 401(k)s have an average balance of \$60,000. The median account balance is less than \$20,000.
- One in three households will only have Social Security for income, and this increases to 75% for low wage earners.
- Only 21% of private employers offer a defined benefit, guaranteed retirement pension.

Why is this happening? Beginning the 1980s many company sponsored retirement programs changed from “defined benefit” pensions, with guaranteed benefits, to individual, “defined contribution” retirement savings plans (commonly called 401(k)s). This cut company costs and eliminated employer responsibility for retirement benefits. Employees became responsible for their own retirement.

People being responsible for their own retirement savings sounds reasonable but it doesn’t work well for many reasons. Many people do not earn enough money to accumulate adequate retirement savings. When people do save, they don’t manage their accounts well. *ALL RISKS are borne by the individual.* If the markets nose dive so does their “savings.” Market volatility and administrative fees eat up investment gains. Plus people can live long enough to run out of savings. People depending do-it-yourself retirement savings too often end up with too little in retirement.

In contrast to individual savings plans, group pension programs can share investment risk across all participants. By pooling risk, having more diverse investments, using professional management, and leveraging economies of scale these programs can provide more secure, stable, *guaranteed lifetime*

retirement income at lower cost. The stability of the individual monthly retirement check is the result of the financial strength of the group trust fund and not one individual's investment account performance.

Defined contribution retirement savings programs (IRA, 401k's, etc.) are a poor substitutes for defined benefit pensions with guaranteed retirement income. Individual savings plans are good for *additional retirement savings*. When combined with Social Security and a pension they create real financial security in retirement.

What is the solution? All Wisconsin workers can have a secure retirement by taking lessons from the successful Wisconsin Retirement System (WRS). The WRS is the retirement trust fund for public employees. Rated #1 in the United States, the WRS is a shared risk, defined benefit pension program serving 672,000 active public employees and retirees. In 2019 it had over \$108 billion in assets. The system is fully funded (meaning WRS assets are large enough to cover all expected current and future retirement payments). In 2010 the average annual retirement benefit was \$23,800, or \$1,983 per month. The WRS can be a model for fixing the private sector retirement crisis.

WRS is funded by investment earnings and contributions from public employees and employers. *No taxpayer dollars pay for monthly retirement benefits*. The cost for state and local government employer contributions is about 1.26% of total government spending (2009 figure). WRS has never failed to meet any obligations nor required any taxpayer bailout. Even when suffering large investment losses, such as during the 2007-08 economic crisis, the WRS, through its internal risk management features, successfully weathered this crisis.

The WRS is good for Wisconsin's economy. In 2006, WRS beneficiaries (86% of whom live in Wisconsin) spent \$4.5 billion, supporting 33,000 private sector jobs that paid \$1.7 billion in wages and over \$730 million in federal, state, and local taxes. In 2010, the WRS invested \$13 billion in Wisconsin companies.

What has been achieved for public employees can be replicated for private sector businesses, employees, and self employed individuals. The retirement crisis can be solved by establishing a voluntary, private sector retirement program similar to WRS. The program could pool contributions from employers and employees and invest in appropriate market securities. Similar to WRS, this program could harness the power of pooled assets, good management, economies of scale, and market forces to create a low cost, high quality, private sector retirement program.

This program would take time to build. WRS has been evolving and growing for over 100 years. But in time this program, along with Social Security and individual retirement savings, would be able to provide secure retirements for all Wisconsin residents. Retirement for all is a "win-win" for Wisconsin businesses, workers, retirees, the economy, and for taxpayers.

It is time to build a better future for Wisconsin.

POWRS is a statewide volunteer group who advocate for enhancing retirement security for everyone. POWRS works to protect Wisconsin's public employee retirement program (Wisconsin Retirement System or WRS), create a similar retirement program for private sector employees and businesses, and protect Social Security.

Learn more at www.powers.org POWRS can be reached at: powerswi@gmail.com
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