Executive Summary

Retirement security is declining in America. Reliable experts say that a retirement crisis is developing and that many older Americans will be unable to retire, will have to work longer, or will live out their "golden years" in poverty. This decline in secure, adequate income for seniors will have a negative impact on the economy as a whole, and Wisconsin's economy will not be immune. The problem will not be self correcting. Direct action is needed to solve the problem.

There are many contributing factors to the crisis: declining wages, exportation of middle class jobs, automation, increasing healthcare, housing, and education costs, inadequate individual savings, a shift in the legal balance between employee and employer rights, and companies defaulting on pension promises. Since 1980, there has been a profound shift in the structure of retirement programs. Guaranteed, defined benefit (DB) company pensions have largely been replaced with individual, defined contribution (DC) retirement savings plans known generally as 401(k)s. The result is a perilous shift in retirement program management from companies to individual employees.

> IMPORTANT NOTE: In defined contribution retirement programs, the employer has no responsibility for providing an adequate retirement income. They may, or may not, make contributions to an employee's account. Individual employees are responsible for saving enough, choosing investments, and "managing" their own retirement. DC plans provide no guaranteed retirement income and investment risks and fees are born by individuals. In a defined benefit plan, the employer is responsible for making contributions AND for managing the retirement program to ensure sufficient funds to pay promised benefits. Risks are more evenly shared, and retirement benefits are guaranteed.

In Wisconsin, 88% of employers offer defined contribution plans compared to just 8% that offer defined benefit plans.[i] But research shows that individuals who save on their own using defined contribution plans get lower investment returns, pay higher (often hidden) management fees, and have dramatically less at retirement than those with defined benefit retirement plans. Specifically, 75% of 401(k)s have an average balance of $60,000 with the median account balance less than $20,000. This means one half of households will end up with virtually no retirement savings and be entirely dependent on Social Security.[ii]

The potential impact of the retirement crisis on families, local communities, and the state as a whole is significant. The elderly population (age 65 and over) will increase rapidly from 777,500 in 2010 to 1,535,500 in 2040, nearly doubling in 30 years.[iii] A growing elderly population with greatly reduced income security will pose a serious challenge for Wisconsin. It will impact overall consumer spending and create overwhelming burdens on tax-supported social network programs.

Wisconsin can avoid these concerns by taking lessons from its very successful Wisconsin Retirement System (WRS). The is the retirement trust fund for public employees. It is managed by the Department of Employee Trust Funds (ETF). Rated #1 in the United States, the WRS is a shared risk, defined benefit pension program serving 572,000 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). WRS has provided guaranteed, family-supporting retirement income since 1985.

WRS pensions are paid for with participant contributions and investment earnings from accumulated assets. ***No taxpayer dollars pay for retirement annuities***. WRS has never failed to meet an obligation or required a taxpayer bailout. The system is also affordable. Wisconsin state and local government spending for pension contributions were 1.26% of total government spending in 2009.[iv]

The WRS provides a successful model to create a private sector, defined benefit retirement program that, over time, could ensure that all Wisconsin workers, not just public sector workers, have a secure retirement income. Such a program would not involve any taxpayer obligation. It would utilize the best practices of WRS and the State of Wisconsin Investment Board (SWIB) to create solutions to the retirement crisis. Two program offerings are suggested. One would be a retirement program and trust fund to provide individual pensions. The other would be an individual deferred compensation savings program that would allow voluntary additional retirement savings.

A defined benefit system for private sector and self-employed workers, built on the operating principles and practices of the WRS, could greatly benefit Wisconsin and its thousands of small businesses, 80% of which have fewer than 25 employees. Businesses that are too small to afford quality retirement benefits could now offer them through a state-assisted system. This would enable them to compete more effectively for quality employees. Such an approach could attract more businesses to Wisconsin, helping to rejuvenate the economy. Retirement for all is a “win-win” for Wisconsin business, workers, retirees, economy, and taxpayers.

[i]**End Notes**

The Imbalance Between Public and Private Pensions in Wisconsin, The Badger Institute (former Wisconsin Policy Research Institute), Joan Gucciardi February 2010, Vol. 23, No. 2, https://www.badgerinstitute.org/Reports/2010/The-Imbalance-Between-Public-and-Private-Pensions-in-Wisconsin.htm

[ii] Are 401(k) Plans a Failed Experiment?, Daily Finance web site, Sarah E. Murphy, The Motley Fool, https://www.fool.com/retirement/general/2012/10/15/are-401k-plans-a-failed-experiment.aspx

[iii]Wisconsin's Future Population Projections for the State, Its Counties and Municipalities, 2010 - 2040, Wisconsin Department of Administration, December 2013, https://doa.wi.gov/DIR/FinalProjs2040_Publication.pdf

[iv] Pensionomics 2009 and 2012, National Institute on Retirement Security, https://www.nirsonline.org/wp-content/uploads/2009/09/nirs_2009_pensionomics_report_final.pdf

https://www.nirsonline.org/reports/pensionomics-2012-measuring-the-economic-impact-of-db-pension-expenditures