

EXECUTIVE SUMMARY

Retirement for All

A Wisconsin Solution to the Retirement Crisis

November 2013

White Paper Written and Published by POWRS*

(Protect Our Wisconsin Retirement Security)

**POWRS is a statewide group of citizens concerned about retirement-related issues. POWRS advocates for protection of the Wisconsin Retirement System (WRS) and enhancing retirement security for all Americans, including stronger and better retirement options for private sector employees and businesses. This paper was written by Philip Anderson, Roger Springman, Patrick Murphy, and Kathleen Marsh. POWRS can be reached at: powers111@gmail.co*

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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 will not be immune. Direct action is needed to solve the problem.

There are many contributing factors to the crisis: declining wages, exportation of middle class jobs, increasing healthcare costs, inadequate individual savings, 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 a *defined contribution* plan, the employer’s *only* responsibility is *to make* contributions to an employee’s account. Employees are responsible for saving enough, choosing investments, and “managing” their own retirement. DC plans provide no guaranteed retirement income; 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.¹ But research shows that individuals who save on their own using defined contribution plans get lower investment returns, pay higher 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-third of households will end up with virtually no retirement savings and be entirely dependent on Social Security.²

The potential impact of the retirement crisis on families, local communities, and the state as a whole is significant. Senior citizens made up 13 percent of the state’s total population in 2000; this is expected to rise to 22 percent in 2035.³ A growing elderly population with greatly reduced income security will pose a serious challenge for Wisconsin. It has the potential to place overwhelming burdens on tax-supported social network programs.

Wisconsin can avoid many of the above concerns by taking lessons from its very successful Wisconsin Retirement System (WRS) for public employees, managed by the Department of Employee Trust Funds (ETF). Rated #1 in the United States, the WRS is a shared risk, defined

1 The Imbalance Between Public and Private Pensions in Wisconsin, Wisconsin Policy Research Institute, <http://www.wpri.org/Reports/Volume23/Vol23No2/Vol23No2.html>

2 Are 401(k) Plans a Failed Experiment?, Daily Finance web site, Sarah E. Murphy, The Motley Fool, <http://www.dailyfinance.com/2012/10/15/are-401k-plans-a-failed-experiment/?source=edddlftxt0860001>

3 Wisconsin Population 2035, Wisconsin Department of Administration, 2008, www.doa.state.wi.us/docview.asp?locid=9&docid=2108

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benefit pension program serving 572,000 active public employees and retirees. 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. Pensions are paid with participant contributions and investment earnings, *not taxpayer dollars*. 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 2009.⁴

The WRS can serve as a model to create a private sector, defined benefit retirement program that, over time, could help 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 market-based solutions to the retirement crisis. Two program offerings are suggested. One, the Wisconsin Retirement Security Fund, would be a pension plan. The other, the Wisconsin Individual Retirement Savings Program, would be an individual deferred compensation program.

A defined benefit system for private sector 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 our economy. ***Retirement for all is a “win-win” for Wisconsin business, workers, retirees, economy, and taxpayers.***

4 Pensionomics 2009 and 2012, National Institute on Retirement Security,
http://www.nirsonline.org/index.php?option=com_content&task=view&id=684&Itemid=48