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It's Time to Collaborate on a New U.S. Retirement Plan

The designers of nearly a dozen U.S. savings plan proposals, including State Street Global Advisors President and CEO Ronald O'Hanley, should pool their ideas to create one universal plan. It would be a timely move.

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There is a retirement security crisis building in the U.S. As many as 50 million full-time workers in the U.S. — or 40 percent of the U.S. workforce — have no

access to a workplace savings vehicle. And each day that these workers do not save, they are another day closer to impoverished elder years.

Added to those without access to a savings plan are the 20 percent of both public and private sector workers who are offered a 401(k) or other voluntary savings plan but, in the absence of automatic enrollment, do not sign up for it. The U.S. personal savings rate has fallen to a meager 5 percent from its peak at 15 percent in 1975, despite that being a time of economic recession. This takes on an increased poignancy when one considers that half of the Millennial workforce — those born between 1980 and 2000 — is estimated to live to at least 100 years of age. And Social Security, which supplies 90 percent or more of the income for two thirds of retirees, is projected to be cut to about 79 percent of the current benefit by 2034, according to the latest stats from that government agency.

Lately, the glimmers of hope have been getting brighter. In response to the paucity of savings and its potential effects on society, a number of leaders have come forward in the past decade with proposals for new, nationally based retirement plans for private sector employees. Whereas proposals began to appear from think tanks, politicians and academics,

members of the asset management community have recently joined the chorus as welcome latecomers whose input I first called for in *Institutional Investor's* November 2011 cover story, "[The Search for a Better Way to Retire.](#)"

With half a dozen or more proposals now on the table, the time has come for these separate retirement plan architects to get together to create one comprehensive national solution for a next-generation U.S. retirement system. Along these lines, this is a call to ask [Ronald O'Hanley](#), president and CEO of State Street Global Advisors; economics professor [Teresa Ghilarducci](#), at the Schwartz Center for Economic Policy Analysis at the New School for Social Research; Hamilton (Tony) James, COO of Blackstone Group; and officials at the Bipartisan Policy Center, along with others, to sit down and work out a unified plan design to present to Congress and the American public.

Retirement industry experts agree. "All the ideas are the same idea," notes [Joshua Gotbaum](#), guest scholar in economic studies at Washington think tank Brookings Institution and former director of the Pension Benefit Guaranty Corp. Gotbaum suggests the plan designers work out a program together.

Ghilarducci agrees. “I am struck by how similar the plans coming from different pension, political and policymaking communities are.”

Ghilarducci was an early arrival to this discussion. In 2007 she proposed the universal Guaranteed Retirement Account. It called for a 3 percent contribution split between employer and employee and a tax credit to reduce the cost for low earners. Unlike other voluntary or auto-enrollment proposals, the GRA is conceived of as a mandatory plan and, as such, practically guaranteed hostile reactions from conservative political factions. Ghilarducci’s plan was given new life in March this year when Blackstone’s James joined the professor to underscore the need for a comprehensive retirement plan in their white paper, “[A Comprehensive Plan to Confront the Retirement Savings Crisis.](#)”

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James’s key addition to the plan design calls for professional asset management that includes a fully diversified set of investments, such as those long employed by endowments, foundations and large pension funds — and that Blackstone offers. “By

keeping people in liquid, short-term investments of stocks and bonds — mutual funds — we’ve sentenced a whole generation of 401(k) investors to very high-cost, underperforming portfolios and completely inappropriate assets,” says Ghilarducci.

In early June, another prominent asset management executive added his voice to the increasingly urgent calls for retirement security. That’s when, in an open letter titled “[Time Is Not on Our Side](#),” State Street’s O’Hanley warned Congress about the dire need for a government retirement savings program. O’Hanley noted previous attempts at creating a system through automatic IRAs, as well as current efforts to create programs on a state-by-state level. But, he argued, these are “patchwork initiatives [that] will lead to a complex and inefficient set of retirement savings programs that perversely could lead to lower savings levels.” IRAs have been proved to be inadequate approaches, [he added](#).

O’Hanley would like to see a national plan requiring all employers to auto-enroll workers into a defined contribution plan with auto-escalation and default investments to maximize savings. He also has called for the elimination of barriers to open multiple employer plans, allowing small businesses to band together to make plans affordable.

Consensus is building for the multiple employer structure within which a new plan design could be managed. “The big idea is the multiple employer idea,” says Gotbaum. “If Congress could make small changes to existing laws, we could allow small businesses to pool purchasing power and transfer the fiduciary responsibility from the small business owner to professionals,” [agrees Jamie Kalamarides](#), head of institutional investment solutions at Prudential Retirement in Hartford, Connecticut . “Workers would get all the benefits of being in a large plan, lowering costs for everyone.”

With so much agreement among new retirement plan architects, now is the time to get together to pool ideas and give our country one universal plan that will help 50 million workers save for the time when they can no longer work.

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