

HIGH PERFORMANCE PENSIONS FOR ALL AMERICANS

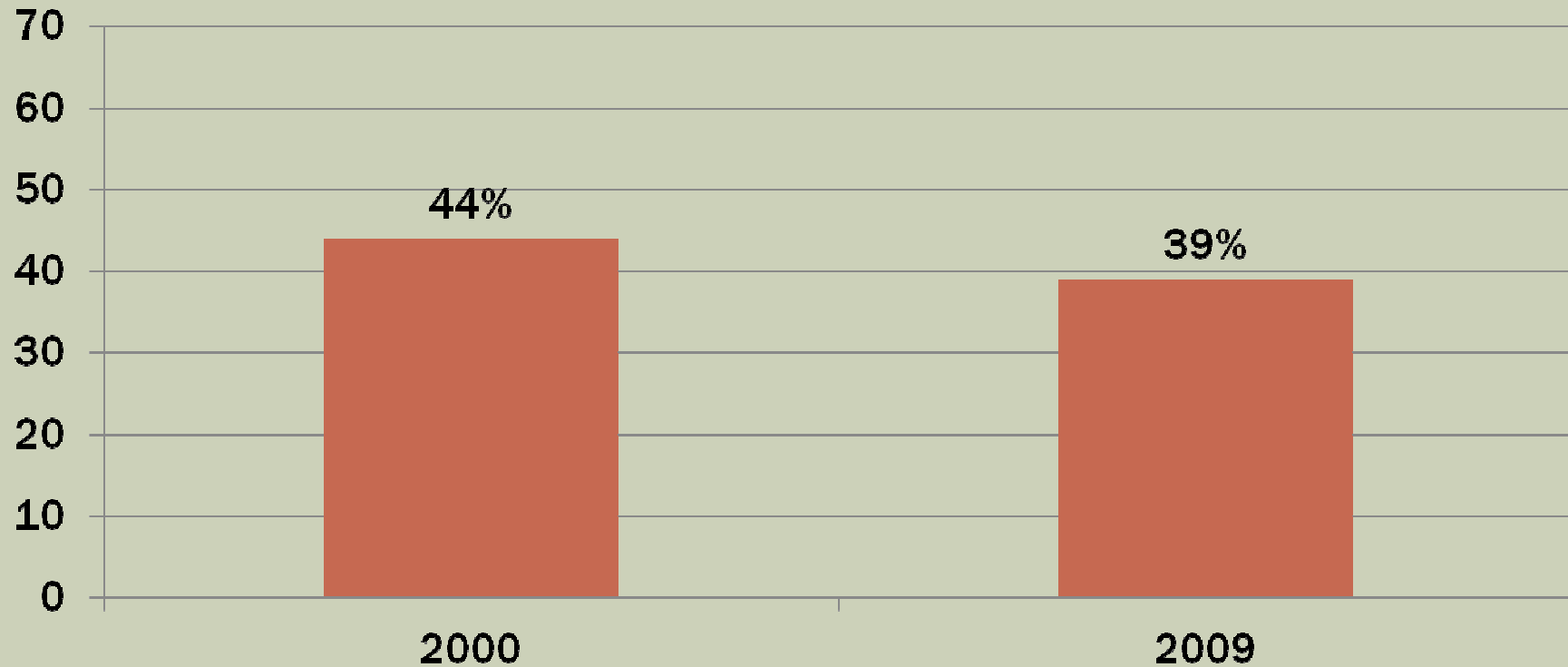
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NCTR

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PARTICIPATION IN EMPLOYER SPONSORED RETIREMENT ACCOUNTS

Proportion of Workers Participating in Private Retirement Accounts has Decreased



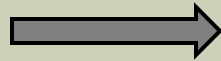
DRAW BACKS OF 401(K) & IRA PLANS

Pro's of 401(k)

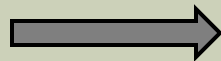
- Self-directed and voluntary



- Portable and liquid



- Choice of many mutual funds



Con's of 401(k)

- Managed poorly and underfunded

- Leakages (withdrawal is easy)

- Excessive fees

9 PRINCIPLES OF A DECENT RETIREMENT PLAN*

1. Universal coverage
2. Portable
3. Pooled assets, efficiently and transparently administered
4. Shared responsibility
5. Adequate pensions
6. Targeted government aid
7. Annuities
8. Payout at retirement (no lump sum)
9. Effective Oversight

* Source: Adapted Retirement-USA.com

GUARANTEED RETIREMENT ACCOUNTS

- Workers and employers contribute at least 5% of pay into a GRA.
- Funds are pooled and invested by the state pension fund (e.g. CalPers, CalSTRS).
- State-run GRAs keep fees low and obtain higher risk-adjusted returns.
- Workers convert accumulated savings at retirement into an annuity.
- GRAs guarantee a (3%) real return – subject to the governing independent trustees' decisions.

WHAT WORKERS OBTAIN FROM GRAs

Contributions of 10% from age 45 onwards

| | <u>Low Wage Earner</u> | <u>Middle Wage Earner</u> |
|------------------------------------------|------------------------|---------------------------|
| Initial Earnings | \$30,000 | \$45,000 |
| Earnings at 65 | \$31,536 | \$52,560 |
| CGRA Balance (3% real return) | \$90,617 | \$142,606 |
| Monthly Retirement Income | | |
| CGRA w/ 3% return | \$504 | \$794 |
| Est. Social Security | \$1,204 | \$2,425 |
| Replacement Rates | | |
| CGRA w/ 3% return | 19.2% | 18.1% |
| Est. Social Security | 45.8% | 37.2% |
| Total Replacement | 65.0% | 55.4% |

GRAs POSE NO RISK TO STATE FINANCES

Monte Carlo Simulation Results for Overlapping Periods : Real Returns on a Balanced Portfolio* (1926 to 2008)

| | Median of Periods' Real Returns | Returns in the Worst Investment Eras | Proportion of periods with real returns \geq 3% |
|------------------|---------------------------------------|--------------------------------------------|---------------------------------------------------------|
| 20-Year (n = 63) | 5.98% | 2.08% | 93% |
| 40-Year (n = 44) | 5.67% | 4.14% | 100% |

* Balanced Portfolio is composed of 25% S&P 500, 25% small stocks, 25% corporate bonds and 25% U.S. Treasuries of all maturities

FAIR AND EFFICIENT TAX INCENTIVES

Example

Individual 1: earns \$337,931 and shelters the maximum deductible amount of \$98,000 which saves them \$45,080 in taxes

Individual 2: earns \$16,000 (min. wage) and also shelters 29% of their income

| | Tax expenditure estimates for 401(k), IRA and Keogh Plans | Per worker |
|----------------------|----------------------------------------------------------------------|-------------------|
| United States | \$68,986,000,000 | \$600 |
| California | \$2,300,000,000 | \$145 |

RETIREMENT SECURITY UNDER A GUARANTEED RETIREMENT ACCOUNT

(SOURCE: [HTTP://WWW.SHAREDPROSPERITY.ORG/BP204/BP204.PDF](http://www.sharedprosperity.org/BP204/BP204.pdf))

| Characteristics of a Good Pension System | 401(k) | Obama's Auto IRA | GRAs | Secure Choice (NCPERS) |
|------------------------------------------|--------|------------------|------------------------|------------------------|
| Universal coverage | No | Almost | Could Be with mandates | No |
| Portable | Yes | Yes | Yes | Yes |
| Pooled assets, efficiently administered | No | No | Yes | Yes |
| Shared responsibility | No | No | Yes | No |
| Adequate pensions | No | No | Yes | No |
| Targeted government aid | No | Almost | Yes | No |
| Annuities | No | No | Yes | Yes |
| Payout at retirement (no lump sum) | No | No | Yes | Yes |
| Effective Oversight | No | No | Yes | Yes |

GRAs ARE A TRIPLE WIN

WORKERS

- No fear of losing savings if you change jobs
- No fear of outliving retirement benefits
- No withdrawal or high-fee leakages

EMPLOYERS

- Standardized model reduces administrative costs
- Flexibility – benefits can be added to GRAs
- No fiduciary responsibilities for retirement plans

THE STATE

- No costly oversight of unscrupulous financial sales staff
- Increased livelihoods reduces demand on state's services
- A better, healthier, and more equitable society

THANK YOU FOR YOUR TIME

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Read more about GRAs at SCEPA's official website:

www.economicpolicyresearch.org