Shift to Defined Contribution Plans Undermines Economic and Retirement Security

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Overview

- Legislative efforts to convert defined benefit (DB) plans into defined contribution (DC) plans are likely to continue.
- Conversion of DB plans into DC plans has serious retirement security consequences.
- Shift from DB to DC plans undermines national economy.
- Shift to DC plans and benefit cuts undermine state economies.
- Shift to DC plans exacerbates economic volatility.
Legislative efforts to convert defined benefit plans into defined contribution plans is likely to continue

- At national level, Annuity Accumulation and Public Employee Pension Transparency Act (PEPTA) proposal from the 114th Congress are likely to be part of Tax Reform catch all package in the 115th Congress.
- At state level, the political situation in 2017 is likely to be the same as in 2016 - Challenging.
- While NV and KS may have relatively pension friendly legislative environment, KY and MO might be on the end of the spectrum.
Conversion of DB plans into DC plans has serious retirement security consequences

Growth in per participant retirement savings in private sector DB and DC plans - 1975-2012
Conversion of DB plans into DC plans has serious retirement security consequences (cont’d)

Growth in retirement savings if everyone was in a DB plan

- Current retirement savings: $6.9 T
- Retirement savings if everyone was in a DB: $13.9 T
Shift from DB to DC plans undermines our national economy

- Shift to DC plans increases income inequality.
- Income inequality in-turn drags the economy down.
- In the end our economy suffers.
Empirical data from the last 30 years show that as the percentage of workforce (public and private) in DB Plans declines, income inequality rises.
Shift to 401(k) Plans Increasing Income Inequality: Study
There is ample evidence that rising income inequality slows the economy down

- International Monetary Fund – “Redistribution, Inequality, and Growth,” February 2014
Empirical data from the last 30 years show that as income inequality rises economic growth dampens.
Shift to DC plans and benefit cuts undermine state economies

- Our analysis at state level consist of not only shift to DC plans but also other negative changes states have made to their pension plans, such as cuts in benefits and increases in employee contributions.
- The analysis shows that for every negative change a state makes, income inequality in that state rises by 15%.
- And, for each unit rise in income inequality in a state, economic growth in that state declines by 18%.
Wait. We are not done yet. There is more.

On top of all this, Shift to DC plans exacerbates economic volatility.
For each 1% shift to DC plans, economic volatility increases by approximately 2%
For each 1% shift to DC plans, financial volatility rises by 8%
Replacing defined benefit pension plans is not a good idea for our retirement security and economic prosperity. Empirical data suggest that it might be penny wise and pound foolish. I am hopeful that you will find this information useful in your continued fight against conversion of DB plans into DC plans.
Thank you