WHY DEFINED BENEFIT PLANS AND WHAT CAN WE DO? NEXT LEVEL OF DISCUSSION

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1. Shift to DC plans increases income inequality, and income inequality in turn drags the economy down and prolongs recessions.

2. Shift to DC plans has created self-inflicted retirement savings crisis.

3. Professor Deaton, who won Nobel Prize in Economics a few weeks ago, writes shift to DC plans may be making middle-aged Americans sick and killing them as they realize they won’t have enough money to retire.

4. Shift to DC plans increases economic instability.

5. What can we do?
Growth in per participant retirement savings in private sector DB and DC plans - 1975-2012
Growth in retirement savings if everyone was in a DB plan

- **Retirement savings if everyone was in a DB plan**
  - $13.9 T
- **Current retirement savings**
  - $6.9 T

Years: 1975 to 2012
Billions of Dollars: 0 to 16000

- 1975: $1 billion
- 2012: $13.9 trillion
- 1975: $6.9 trillion
- 2012: $13.9 trillion
After the productivity slowdown in the early 1970s, and with widening income inequality, many of the baby-boom generation are the first to find, in midlife, that they will not be better off than were their parents. Growth in real median earnings has been slow for this group, especially those with only a high school education. However, the productivity slowdown is common to many rich countries, some of which have seen even slower growth in median earnings than the United States, yet none have had the same mortality experience (lanekeenworthy.net/shared-prosperity and ref. 30). The United States has moved primarily to defined-contribution pension plans with associated stock market risk, whereas, in Europe, defined-benefit pensions are still the norm. Future financial insecurity may weigh more heavily on US workers, if they perceive stock market risk harder to manage than earnings risk, or if they have contributed inadequately to defined-contribution plans (31)...
Shift to DC Plans in the U.S. Increases Economic Instability: For each 1% shift to DC plans, economic instability increases by approximately 2%*

<table>
<thead>
<tr>
<th>Decades</th>
<th>Cumulative % of Work Force Shift to DC Plans</th>
<th>Economic Instability (Standard Deviation)</th>
<th>% Increase in Economic Instability</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980s</td>
<td>5.02</td>
<td>1.82</td>
<td></td>
</tr>
<tr>
<td>1990s</td>
<td>6.83</td>
<td>1.82</td>
<td></td>
</tr>
<tr>
<td>2000s</td>
<td>9.27</td>
<td>2.14</td>
<td></td>
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<tr>
<td>1980s-2000s</td>
<td></td>
<td></td>
<td>17.58**</td>
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</tbody>
</table>

*Approx 2=17.58/9.27; **17.58 = [(2.14-1.82)/1.82]x100
**WHAT CAN WE DO?**

- Educating public and policy makers on societal ills of shift from DB to DC plans
- Greater transparency on the Wall Street
- Responsible Investments and Corporate governance
- NCPERS Secure Choice program or other approaches to expand DB plans in the private sector, especially small employers.
- Other
Thank You