CSR
COALITION FOR SECURE RETIREMENT - MICHIGAN

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Michigan, like many other states, is wrestling with ways to deal with the current "pension crisis." Of course, when anti-pension advocates describe what they mean by pension crisis, they generally refer to the large number of pensions that are presently underfunded. However, these advocates completely ignore the real looming threat, which is in actuality a "retirement crisis." This true crisis reflects the massive and growing number of American workers who will never have the necessary savings or pensions to be able to retire at all.

Michigan's own recent history provides a perfect demonstration of this phenomenon. In 1997, the state legislature closed the existing state employee pension system to new hires. Therefore, only state workers hired before March of 1997 are in the Michigan State Employees Retirement System (MSERS) – a traditional defined benefit plan. Those hired after that period were automatically placed into a defined contribution plan. In 2015, the National Institute for Retirement Security issued a report that compared the expected retirement benefits of the two classes of state employees.

The findings of this study highlighted what we consider to be the "real" retirement crisis. State workers in the defined contribution plan were found to have, on average, expected pension benefits a third less than their counterparts in the defined benefit system. Further, the study found that among state employees nearing retirement age (60+) in the defined contribution plan, their average retirement accounts were only approximately $130,000 – far less than one would need to enjoy more than a subsistence-level retired life.

Over the last three decades, the private sector has overwhelmingly abandoned traditional pensions in favor of 401(k)-style defined contribution savings accounts. This is a fundamental misuse of these systems that were designed to be a supplement to a traditional defined benefit pension rather than a replacement of them. More and more American workers are finding that their only avenue toward retirement is Social Security and personal savings combined with whatever meager defined contribution plan they are offered by their employer.

To make matters worse, a high percentage of American workers with a 401(k)-style plans are prone to having their nest egg depleted either by poor decision-making or events beyond their control. Some studies have shown that upwards of 50% of American workers with a 401(k)-style plan dip into it too early, thereby costing them potentially hundreds of thousands of dollars in future earnings. Employees may make withdrawals from defined contribution plans for a variety of reasons, including unforeseen emergencies, divorces, or health care costs. Whatever the reason, easy access to these savings accounts are costing many Americans any chance at retirement

Even those workers who maintain their defined contribution accounts for their entire work lives can see them wiped out by poor investment decisions. The key driver of all pension systems – both defined benefit and defined contribution – is investment income. Both types of retirement plans can be harmed by poor market conditions, but traditional defined benefit plans have a much better capacity to recover than a defined contribution account, and the impact of the market will not affect retirement planning of the employee. Conversely, workers relying solely on a 401(k)-style plan can be forced to put off retirement for years, and possibly indefinitely, if they are unfortunate enough to have the economy go into a recession toward the end of their working career.

While politicians focus on the need to deal with under-funded public pension systems across the country, many of them are ignoring the real retirement problem facing the American workforce today. As our nation continues to climb out of the 2008-2010 recession that created a huge amount of the unfunded liabilities that traditional pension systems face today, that problem will begin to right itself. However, until leaders in government, industry and academia begin to grapple with the real retirement crisis, Americans will more and more be forced to work well into their golden years, sacrificing not only their quality of life, but also opportunities for the next generations of workers to succeed.