

# **Should We Replace the Current Pension System with a Universal Pension System?**

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# Only Half of Americans Have Pensions

- U.S. has a voluntary pension system
- In 2006
  - Just 78.6 million (50 percent) worked for an employer (or union) that sponsored a retirement plan
  - Just 62.3 million (39.7 percent) participated
- Coverage is greater for
  - white-collar workers, full-time workers, union workers, workers at larger firms
  - older workers, whites, highly educated workers, higher-income workers

# A mandatory Universal Pension System (UPS)

- **Why:** Current system unable to finance the retirement most Americans will expect
- **What it is:** 10% of payroll, mandatory, add-on individual accounts taxed like IRAs
- **What it would do:** At maturity, replaces 47.9% of wages for men, 44.4% for women

# Assumptions

- Workers work every year between ages 22 and 65
- Each worker contributes 10% of payroll up to Social Security taxable maximum
  - \$102,000 in 2008
- 3% annual real return
  - 6% nominal; 3% inflation
- Money must remain in the account until age 65 and then must be annuitized
  - One-time 0.3% annuity conversion cost

# Individual Account Benefit in the First Year of Retirement

(2007 Dollars)

<i>Year Cohort Turns 65</i>	<i>Single Male</i>			
	<i>Low</i>	<i>Average</i>	<i>High</i>	<i>Tax Max</i>
2005	-	-	-	-
2025	\$3,791	<b>\$8,424</b>	\$13,478	\$20,552
2045	\$11,627	\$25,839	\$41,342	\$63,121
2065	\$16,549	<b>\$36,775</b>	\$58,840	\$89,994

# Individual Account Replacement Rates (IA as a Percent of Final Wage)

<i>Year Cohort Turns 65</i>	<i>Single Male</i>			
	<i>Low</i>	<i>Average</i>	<i>High</i>	<i>Tax Max</i>
2005	0.0	0.0	0.0	0.0
2025	16.9	16.9	16.9	16.8
2045	41.7	41.7	41.7	41.7
2065	47.9	<b>47.9</b>	47.9	47.9

# Conclusion

- In the long run, a 10-percent-of-earnings Universal Pension System would replace
  - 47.9 percent of final wages for men
  - 44.4 percent for women
- Provide subsidies for low-income workers
  - Refundable saver's tax credit
  - Refundable rebates
- Let's replace our current voluntary system with a mandatory Universal Pension System