Concerns About PERCO Based on the Risks of 401(k) in the US

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Perco and 401(k) have similarities and differences.

- French DC –PERCO is a modified 401(K) intended to make up 3% of French retirement income
- 401(k) intended to supply 50% of income for the middle class.
- **Accumulation** the same: Voluntary employee/er contributions
- **Investment** same and different:
  - Same: Individual-directed and similar ERISA –type standards, prudent person rule, limited company funds US.
  - Differences: requires a minimum 3 funds including a “solidarity” fund and life cycle style management
- **Payout** same: Lump sum payments or voluntary annuity
Warning From America: 401(k) Risk

• The financialization of pension systems have created three unintended risks compared to a pay-go or advanced funded defined benefit system:

1. Inadequacy Risk: Unequal distribution of retirement security and political risk
2. Macro Risk: Automatic destabilizers
3. Labor Risk: over supply of elder labor
# Types of American Retirement Institutions

<table>
<thead>
<tr>
<th></th>
<th>Coverage</th>
<th>Funded</th>
<th>Payout</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Social Security</strong></td>
<td>Almost 100%</td>
<td>Pay Go</td>
<td>Annuity</td>
</tr>
<tr>
<td><strong>401(k)</strong></td>
<td>49%</td>
<td>Liquid Mutual Funds</td>
<td>Lump Sum – before or after Retirement</td>
</tr>
<tr>
<td><strong>Public and Corporate DB plans</strong></td>
<td>20%</td>
<td>Diversified non and liquid assets</td>
<td>Annuity and Lump Sum at Retirement</td>
</tr>
</tbody>
</table>
America faces future poor and near poor retirees

• Causes:
  – Declining overall pension security caused by voluntary plans and labor losing bargaining power:
    – 401(k) type plans
    – stagnant incomes and high unemployment
    – Government Social Security is a minimum benefit
## Upshot of US System?:
### The END OF Retirement

*Earnings Soar for Elders; 2000-2010*

<table>
<thead>
<tr>
<th>Share income for ALL those over 65</th>
<th>2010</th>
<th>2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social Security share</td>
<td>37%</td>
<td>38%</td>
</tr>
<tr>
<td>401(k) and IRAs share</td>
<td>11%</td>
<td>18%</td>
</tr>
<tr>
<td>DB plans share</td>
<td>15%</td>
<td>18%</td>
</tr>
<tr>
<td>Labor earnings share!</td>
<td><strong>30%</strong></td>
<td>1%</td>
</tr>
<tr>
<td>Country</td>
<td>Share of labor income for retirement age people</td>
<td></td>
</tr>
<tr>
<td>---------------</td>
<td>-----------------------------------------------</td>
<td></td>
</tr>
<tr>
<td>US</td>
<td>30.2%</td>
<td></td>
</tr>
<tr>
<td>Germany</td>
<td>9.9%</td>
<td></td>
</tr>
<tr>
<td>France</td>
<td>6.4%</td>
<td></td>
</tr>
<tr>
<td>OECD Average</td>
<td>21.4%</td>
<td></td>
</tr>
</tbody>
</table>
## Old Age Poverty Rates

<table>
<thead>
<tr>
<th></th>
<th>75+</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>27%</td>
</tr>
<tr>
<td>Germany</td>
<td>11%</td>
</tr>
<tr>
<td>France</td>
<td>11%</td>
</tr>
<tr>
<td>OECD</td>
<td>16%</td>
</tr>
</tbody>
</table>

Source: OECD Income-Distribution Database
Chances of Being Poor and Near Poor in Old Age in the US are Still High with 401(k) and Nothing

Source: 2008 Survey of Income and Program Participation (SIPP)
Growth in Americans Workers without any plan: 401(k) or DB; Voluntary Systems are a Big Waste of Tax Breaks

<table>
<thead>
<tr>
<th></th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth of small firms</td>
<td>-3.0%</td>
</tr>
<tr>
<td>Bargaining power higher</td>
<td>-1.4%</td>
</tr>
<tr>
<td>unemployment and unions</td>
<td></td>
</tr>
<tr>
<td>Other Worker and Firm</td>
<td>-1.6%</td>
</tr>
<tr>
<td>characteristics</td>
<td></td>
</tr>
</tbody>
</table>
PERCO provides a very similar investment Platform to 401(k)s

DO IT YOURSELF!! MAKES ME VERY WORRIED.

Plan Booklet (Livret d’accueil) + Enrolment KIT

Employee = OPT IN Plan

Internet Tools

- The simulations tools
  - Define your investor profile
  - Define your investment option

- Investment - Do it yourself or a packaged retirement solution

- Life cycle style managed by the accounting platform
  - Life cycle fund + guarantee on the capital invested.

- The simulations tools

1. Define your investment profile
2. Select your investment option
3. Compare automatically your investment option with your investor profile
Americans Debate Solutions: A good pension system

• Adequate and consistent contributions (mandatory)

• Efficient investment performance (pooled investments, professional management, low fees)

• Adequate and steady income stream for life (through annuitized payment stream)
Criteria 1

CONTRIBUTIONS

• A mandatory system to achieve consistent contributions of at least 5% of pay.

• A mandatory system does not need “incentives”
Criteria 2

INVESTMENTS

- Pooled investments have best chance of achieving low-risk, long-term gains.
- Economies of scale
- Minimum risk
Balance is converted to annuitized income stream

Funds cannot be withdrawn before retirement
401(k) Design Fails IN US—why reproduce with PERCO?

• Fails on the Micro:
  – Shift risks to those least able to pool market, investment and longevity risk;
  – Promotes inconsistent accumulation, inefficient portfolios, early withdrawals.

Fails on the Macro:
– 401(k)s are procyclical
Solution: Mandatory Pensions

• **PAYOUT**
  – GRAs pay an inflation-adjusted annuity, funds cannot be withdrawn before retirement

• **ACCUMULATION**
  – 15-20% of pay; tax credits not deductions

• **INVESTMENT**
  – Professional board invests the money in private markets- Guaranteed 3% plus inflation
In the US we need a new plan that replaces the Failed 401(K)s

<table>
<thead>
<tr>
<th>6 Needed Features</th>
<th>401(k)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Universal Coverage</td>
<td>No</td>
</tr>
<tr>
<td>Pooled Assets</td>
<td>No</td>
</tr>
<tr>
<td>Payouts Only at Retirement</td>
<td>No</td>
</tr>
<tr>
<td>Steady Lifetime Income Stream (Annuity)</td>
<td>No</td>
</tr>
<tr>
<td>Portable Benefits</td>
<td>Yes</td>
</tr>
<tr>
<td>Low-Cost and Transparent Administration</td>
<td>No</td>
</tr>
</tbody>
</table>
Who Wins and Lose with PERCO?

- Mutual fund and insurance industry
- Unions get the balm of ESG investing and joint trusteeship
- Losses to workers are nil directly because it is a small elite program
- Administrative costs and tax breaks will be higher than anticipated based on the US model
Individuals can’t solve the retirement problem on their own

“If we take a late retirement and an early death, we’ll just squeak by.”
THANK YOU

Hidden Risks of 401(k) Pension Reform

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