

OUTLOOK: What Does Retirement Security Look Like in America?

The Office of the Advocate shares PBGC’s mission to encourage the continuation and maintenance of private sector defined benefit plans. While there are numerous collective and economic factors contributing to the erosion of the defined benefit retirement system, plan sponsor issues identified in past Advocate Annual Reports, as well as increased premiums and other expenses plan sponsors incur when interacting with PBGC, contribute to plan sponsors’ desires to de-risk or terminate their pension plans. PBGC process improvements that are considerate to plan sponsor concerns and that reduce their costs when interacting with the agency can help mitigate the growing threat to Americans’ retirement security precipitated by the loss of private sector pension plans.

As demographics change, people live longer, and more lifetime annuity options disappear from the landscape, a major policy question faces our nation: what does retirement security look like in America beyond the baby boomer generation, and for the many Americans who do not have access to a defined benefit plan? Can defined contribution plans really be made to have the same features of defined benefit plans? Can retirees survive comfortably in retirement solely with savings, assets they must draw down from a defined contribution plan, and a Social Security benefit? If an annuity is offered under the terms of the defined contribution plan, what protections and safeguards exist in helping a participant purchase such an annuity? Should we shift the proposition, and consider what features of a defined contribution plan can be part of a defined benefit plan?

These are crucial questions and PBGC, in accordance with its mission to encourage the continuation and maintenance of defined benefit plans, has an important role to play in facilitating a dialogue about the future of retirement security, particularly as the fiftieth anniversary of the agency approaches.

Such a dialogue would need to consider long-term systemic questions about the defined benefit system as a whole, while also exploring concrete actions PBGC can take now to shore up the defined benefit system and eliminate factors that motivate sponsors to give up their pension plans. Included discussions should consider topics such as current premium levels and whether PBGC can or should raise the question regarding whether the high level of premiums undermines its mission to maintain the defined benefit system.

Consider the following quotes from plan sponsors when asked about PBGC premium levels as part of the Office of the Advocate’s 2018 Pension De-Risking Study:⁴

“The PBGC premiums have inflated way higher and way faster than anything that would be considered reasonably acceptable.”

⁴ The Office of the Advocate Pension De-Risking Study: Plan Sponsor Focus Group (July 2018), available at https://www.pbgc.gov/sites/default/files/appendix_i_de-risking_study-2018.pdf.

“[T]he higher the premiums go, the threshold for where we’ll de-risk, it just gets closer. It’s purely [an] economic thing.”

“For us, if we freeze our plan, it will be no question because of the PBGC premiums.”

“We justified our [retiree annuity purchase] strictly on PBGC premium savings.”

Unless solutions are identified to enhance retirement security, a growing number of older Americans lacking benefits from defined benefit plans will face dire resultant financial challenges, including an inability to afford housing and long-term care post-retirement. Later generations, charged with supporting relatives who are no longer able to work, will also feel the economic reverberations of the shift away from the defined benefit retirement system to a savings-based system in which participants bear the responsibility of ensuring adequate funds for retirement.

Recently, the World Economic Forum noted that, “For the first time in human history, people aged 65 and over outnumber children aged five and younger.”

So, where do we stand as Americans when it comes to protecting and ensuring retirement security for our seniors, who have given a lifetime of service to our economy, our society, and our democratic values?

PBGC can play a role in the national conversation around retirement security, as the agency offers unique expertise, perspective, and data on the strengths of the defined benefit system, which are sometimes overlooked as retirement industry stakeholders seek to envision a secure retirement future for the United States. Much current discussion regarding the future of America’s retirement system focuses on defined contribution plans, as industry experts are acutely aware of defined benefit plans’ ongoing decline and are hopeful that defined contribution plans will provide a sufficient alternative. While defined contribution plans will, no doubt, play an important future role, the defined benefit system offers retirees ease in securing guaranteed lifetime income and other economic protections that cannot be replaced. It is essential that improvements to, and new variations of, defined benefit plans are considered alongside defined contribution plans as thought leadership regarding this issue progresses. PBGC is well-positioned to drive this discussion.