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## Traditional retirement options are outdated

According to the traditional metaphor regarding retirement funding, Social Security, pensions and personal savings/investments make up the three legs of the retirement stool.

Just like this metaphor, our approach as a nation toward retirement funding is out of date.

Social Security is an essential and foundational program -- especially for lower-income Americans -- and should be strengthened, not diluted. Of course, we are faced with some tough policy decisions on the horizon, but with courage and foresight, Social Security can be shored up quite adequately.

It is a well-documented fact that private-sector pension plans are on the decline. In the late 1960s, roughly 60 percent of workers were covered by a defined benefit (pension) plan. In 2004, the number dwindled to 17 percent and will likely continue to decrease.

There have been some promising advances in 401(k) legislation recently and some interesting proposals on the table. The 2006 Pension Protection Act has led to higher participation in 401(k) plans, in large part due to increased implementation of the automatic enrollment feature. And, there is talk of a National 401(k) plan, which would allow all Americans to participate and get up to \$1,000 annually in federal matching funds in the form of a tax cut.

For many Americans, a fourth leg of working longer will need to be added to the retirement stool.

The bottom line is that one-third of the work force has no retirement savings or pension. Retirement savings -- such as IRAs, 401(k) plans and non-qualified savings -- are the icing on the cake for many of those who will receive Social Security and payments from a pension.

However, for those without a pension, personal savings/investments are a critical leg of the retirement stool and essential for insuring a reasonably secure retirement.

Pensions plus personal savings/investments have solved the retirement conundrum for about 75 percent of workers nearing traditional retirement age. However, for the remaining 25 percent, the current approach is clearly not working. Changes to 401(k) rules have helped and a National 401(k) would likely improve participation, but we need more.

For the pension leg of the retirement stool, we need an additional option, call it the Personal Retirement Annuity Pension (PRAP):

- It would be portable because workers move from job to job frequently. The U.S. Department of Labor estimates that today's worker will have had 10 to 14 jobs by the time they reach age 38.
- It would be funded by the employee with some minimal matching from the employer. This could be loosely modeled upon the successful Kansas Public Retirement System (KPERs).
- Every employer would be required to offer either a 401(k)-type plan, pension plan or a PRAP.
- It would have an inflation-adjusted benefit at retirement. Most existing pension plans have no built-in cost of living adjustment, which leaves retirees faced with diminishing buying power as they age.
- Workers would not be allowed to access the pension until a life-expectancy adjusted normal retirement age. In 2003, 18 percent of eligible plan participants borrowed from their 401(k) account; many will never pay it back.
- Workers would build credits toward retirement. These credits would be cashed in for pension payments at retirement. The benefits would not be dependent upon the vagaries of the stock market.

- It would be funded through insurance companies with oversight (not funding) by the federal government. The benefits would be actuarially determined and investment risk would be borne by the insurance company, not the worker. The average worker is overwhelmed by retirement investment choices.
- There would be built-in life insurance and disability features.

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