U.S. Should Play Aussie Rules for Retirement: Researchers

By Emile Hallez, Ignites, August 29, 2014 [subscription required]

The United States should look down under for a simple answer to the retirement savings crisis, two researchers at University of Rochester state in a recently published paper.

In a proposal entitled "Let's Save Retirement," researchers Russell Olson and Douglas Phillips outline a complete overhaul of the U.S. defined contribution retirement system — one modeled after Australia's relatively young but highly successful superannuation program.

Under the proposed system, all U.S. workers who are not currently in a defined benefit plan would be automatically enrolled in a "trustee retirement fund," the sponsors of which would be trustees with stringent fiduciary duties. By enrolling employees in those funds, employers would bear no fiduciary responsibility.

The proposal also includes the creation of a new government agency — a "Federal Longevity Administration" — that would oversee an annuities program in which retirees would be encouraged to participate.

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Though the current system should be simplified, the use of only one type of plan may be too limiting for certain investors, says Niels Holch, executive director of the Coalition of Mutual Fund Investors.

"To bundle up all these defined contribution plans into one approach is like taking a sledge hammer to a problem when a scalpel is more appropriate," Holch says. "I'm also concerned about creating a government agency that would control the annuity market." Rather, the current U.S. retirement system would benefit from expanded tax incentives, which would encourage more employers to offer plans, he says, adding that the role of government in administering the system should not be increased.