Opinion

Forced Retirement Saving Does More Harm Than Good

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Every expert who has looked at the retirement crisis agrees that savings contributions by both employers and employees need to be increased significantly.

But it would be a mistake to jump-start workplace contributions by adopting federal legislation to mandate minimum employer and employee contributions, as advocated last week by Laurence Fink, the CEO of BlackRock.

Average individual retirement assets in the United States are at very depressed levels. The median household possesses about only $190,000 in financial assets invested for retirement and about $125,000 in home equity.

Combine these assets and you end up with about $315,000 in potential retirement savings for the average senior citizen.

A pool of assets valued at $315,000 can be expected to produce about $15,000 a year for several decades, assuming a 5% spending rate. An annual income of $15,000 is right at the poverty level for a two-person household, according to guidelines established by the U.S. Department of Health and Human Services.

These numbers reveal that the average senior citizen can retire with an income only at the current federal poverty level, plus Social Security and Medicare.

This is certainly a failure of the DC system established several decades ago. But let us not throw the baby out with the bathwater. Let us improve the DC system instead.

Employees need more education about the importance of saving and investing for their retirement. Employers need to automatically enroll all employees and provide more generous matching contributions.

And more employers need to offer retirement plans as a core benefit for their employees.

In a May 7 speech to MBA students at New York University, BlackRock CEO Larry Fink advocated all of these very sensible solutions to address our country's retirement savings shortfall.

However, he also recommended a mandatory retirement savings program for the U.S., similar to the retirement systems in Australia and the United Kingdom.

In Australia, employers must make a compulsory payment of as much as 9% of an employee's wages; in the U.K. legislation is in place to require an employer and its employees to be responsible for jointly contributing a minimum of 7% of salaried income.

These types of mandates will not be accepted easily here in the U.S.

Our country is about to experience the adverse effects of another mandatory solution to a societal problem in the form of "Obamacare." Most of its provisions are scheduled to be implemented over the next year.

The costs of Obamacare are expected to be very large and are definitely one reason that employers of all sizes are reluctant to expand their hiring of new employees.

We do not need another mandate from Congress that establishes a "one-size-fits-all" retirement contribution amount for the entire American workforce, in the name of boosting retirement savings.

A better plan is to improve educational efforts about the need for saving and investing for retirement and expand the incentives for employer and employee contributions to retirement plans.

In addition, we should make sure that employees are automatically enrolled in plans when they become eligible.

Despite widespread anxiety about the DC retirement model, we are not going back to defined benefit plans in the private sector.

The employer liabilities are too great, and worker mobility between employers ensures that the average worker is not going to stay with the same employer for the length of time needed for this type of retirement model to work.

We need to take an incremental approach toward improving the DC model. The best approach is to improve both the incentives for retirement savings and the structure of retirement plans, in order to generate higher retirement contributions by both employers and employees.

Asset managers and plan service providers also need to be more sensitive to fees and expenses, so that retirement assets can compound at a higher rate over long periods of time.

We should improve the incentives to save over a long period of time and strengthen the DC retirement plan structure. Those tactics are preferable to imposing a mandated retirement savings model that will discourage the hiring of new employees and cause employers to expend resources trying to avoid yet another mandate from Washington.