PLANSPONSOR®

Your Children's Retirement

The focus needs to be on income replacement

In August, I took my son to Boston for his freshman year of college. My daughter is a college senior.

My wife and I have been telling our children that they need to find a career they really care about because they will probably work for 50 or 55 years, until their mid-70s. Why? It's because of increasing life expectancies and the cost of retirement in a defined contribution (DC) world.

Your children and mine will probably live to 100. That is, if they live to 65 I expect that they will live another 35 to 40 years. It's very difficult to fund a 35- to 40-year retirement in 35 to 40 years of work. I think it's more realistic to fund a 25-year retirement—which, even then, is a long time—in a 50-year working career. That's two years of work for each year of retirement—much more than our grandparents and great-grandparents had.

For example, my mother was from a farming family in Mississippi. The farm housed three generations—my grandparents, my uncle and aunt, and their children. The grandparents were expected to work until they couldn't. My grandmother churned butter, collected eggs, "collected" and cooked chickens, and so on. In other words, folks worked until they simply couldn't work any longer. So, our concept of a "pure" retirement is fairly new and mostly a post-World War II phenomenon.

As you can tell by this point, my thinking is defined contribution-based. I believe that people will need to finance their retirement primarily through saving—personal and through work. In some ways, that is more like the responsibility borne by our grandparents than it is like the post-World War II generation, which had defined benefit (DB) plans, including military retirement and relatively meaningful Social Security.

You don't have to be much of a mathematician to figure out that defined benefit plans will become extraordinarily expensive to corporations and, for public pensions, to taxpayers. If a person can retire from a defined benefit pension plan at age 65 and then live for another 35 years—it may take an actuary to tell you the cost—you and I know that the number is going to be very big. So, where does that leave us?

Our children—particularly those under 30—have grown up in a world where people have to save for their own retirement, where investment losses can hurt retirement dreams, where Social Security retirement doesn't pay enough for a person to live in reasonable comfort—and where it is hard to get jobs. It doesn't take much thought to conclude that, based on those observations, our children will be better savers than we have been and that they will be more conservative financially than we are. That's a lesson our generation has taught them.

> It's very difficult to fund a 35- to 40-year retirement in 35 to 40 years of work.

Where Do We Go From Here?

I think it is important that plan sponsors take more responsibility for the performance of their plans. By that, I don't mean avoiding lawsuits; I mean plan sponsors should measure the success of their plans by the income replacement they are able to generate for workers. That, in turn, is based on participation levels, deferral rates and portfolio investing by participants. A big part here—and an important first step—is to provide employees with information about how much they need in order to retire. Then they must know how much they should save or defer to reach that goal. That information is critically important. I don't understand why employers don't make their providers give it to employees. I hope my children and yours receive that guidance.

Fred Reish is chair of the Financial Services ERISA team at the law firm of Drinker, Biddle & Reath LLP. A nationally recognized expert in employee benefits law, he has written four books and many articles on ERISA, IRS and DOL audits, and pension plan disputes. Fred has been awarded the Institutional Investor Lifetime Achievement Award and the PLANSPONSOR Lifetime Achievement Award. He is one of 15 individuals named by PLANSPONSOR magazine as "Legends of the Retirement Industry" and one of five acknowledged as "Retirement Plan Adviser Legends" by PLANADVISER magazine.