Sharing is Caring

As we’ve shared with you through several of our publications, KCS has maintained an active blog for roughly 3 1/2 years. In this Fireside Chat, we share with you the “guts” from four of our more recent offerings. Why? Well, it is one thing to lay claim to the belief that the demise of the DB plan will likely produce profoundly negative social and economic consequences, but it is an entirely different kettle of fish when we are beginning to see the impact!

In this article, we will touch on the fact that a Florida-based public fund has decided to close their DB plan to new hires, and only offer them an opportunity to participate in a DC plan. Furthermore, we will explore the impact of student loans on the ability of the roughly 42 million borrowers to fund a retirement plan above meeting their loan obligation.

In addition, we will reference a wonderful article that we recently discovered speaking to many of the same social issues that we’ve been highlighting. Lastly, we’ve seen a frightening increase in premature deaths among white people in their late 40’s to 50’s, and we discuss why life expectancy may be waning for this particular cohort.

A Wake-up Call?
(March 22, 2017)

The Jacksonville (Fla.) Police and Fire Pension Fund might close to new hires later this year following approval from the city’s police and fire unions of a proposal from Mayor Lenny Curry’s office.

This development should be a wake-up call to all the public DB pension systems that think that their plans are perpetual. Poor funded status and escalating contribution expense will eventually get the attention of the taxpayer. DB plans must be preserved, but they need a new focus and direction (see the KCS website and blog for our many thoughts on this subject). Clearly, the all-out pursuit of the return on asset assumption (ROA) has failed, as many pension plans continue to struggle despite 8+ years of a bull market in equities and nearly 35 years in bonds!

The move by Jacksonville to push new employees into a defined contribution plan might ultimately reduce the City’s liability, but it isn’t in the best interest of their future hires. Although the proposed
employer contribution of 25% is quite generous, the DC plan must still be managed by the individual employee who doesn’t necessarily have the financial literacy to insure a successful program.

Furthermore, with a vesting schedule that allows full vesting after just 3 years, Jacksonville should expect far greater turnover in its ranks. We appreciate that there is a financial burden to fund these systems, but closing them isn’t the answer. We believe that there are strategies that can be deployed that will help stabilize both the funded status and the contribution expense while beginning to de-risk the plan so that it remains a viable option. A retirement system solely dependent on a defined contribution plan is no retirement system! DC plans are glorified savings accounts.

**Back to the Future**  
(March 27, 2017)

As mentioned, we just found a great article by Robert M. Ball, titled “Old-Age Retirement: Social and Economic Implications”. For regular readers of the KCS blog, you know that we spend a lot of time trying to highlight and understand both the social and economic ramifications of our failure to provide a stable retirement benefit. Many of the points discussed in Mr. Ball’s article echo topics that we’ve raised, including:

- Over the next 15-20 years will we make the fundamental adjustments that are necessary if older persons are to make the economic contribution that they are capable of making?
- For most workers today, retirement means inadequate food, clothing, housing and a sense of insecurity.
- For those workers forced into retirement (lay-offs) the worker loses more than an income, as they are faced with emotional and spiritual problems equally as serious.
- Work means recognition in our society, and it is largely through work that one gets a sense of being a useful participating member of society.
- Our failure to give the aged a responsible role in the community is making them into a class apart.
- The very technological improvements that increase labor productivity and make it possible to support the aged in retirement constitute a serious threat to the employability of the older worker.
- The older workers who lose jobs are at a greater disadvantage in securing a new one.
- The future will find us with a considerable number of job vacancies at the same time that we have a hard core of unemployed workers (review the current U6 and LPR data).
- Individual savings for old age is extremely difficult for most wage earners.
- What savings the worker generates is often used up during illness or unemployment, or is spent bringing up children.

I suspect that most of you agree with the points being made above. Given that, you’ll probably be shocked to read that this article that we just “discovered” was written in 1950! Mr. Ball was the Assistant Director, Bureau of Old-Age and Survivors Insurance.
And Then There Are The Student Loans…
(March 27, 2017)

As recently reported by the NY Post, a study of government data by the Consumer Federation of America found that the number of Americans in default on their student loans jumped by nearly a fifth last year. According to the analysis, student loans in default, meaning that they haven’t made a payment in more than 270 days, jumped from 3.6 million to 4.2 million by the end of 2016.

The 4.2 million loans in default are roughly 10% of the number of student loans in the market. Furthermore, Americans currently owe about $1.3 trillion in federal student loans. Including private loans, the amount of debt grows to $1.4 trillion. Shockingly, student loan debt has grown from just about $0.5 trillion in 2006 to $1.4 trillion in 2016.

As the article points out, “Defaulting on a federal student loan can be a financial disaster for the borrower. Unlike other types of debts, most federal student loans cannot be discharged in bankruptcy. Those who go into default face serious repercussions including wage garnishment, damaged credit scores and potentially added costs in fees, interest, and legal fees.”

The significant increase in the cost of education and the greater use of student loans to meet this expense is placing an unfair burden on our younger generation. This burden makes it nearly impossible for one to begin to fund a defined contribution retirement plan, but that is basically what we are left with at this stage. The more that funding is delayed, the less likely it is that one will generate a retirement account meaningful enough to accomplish one’s goal of retiring.

KCS focuses on issues related to one’s ability to retire, but the burden of greater educational costs impacts so much more from establishing family units, housing, and the general demand for goods and services.

Why Are Death Rates Rising?
(March 23, 2017)

Researchers Ann Case and Angus Deaton have discovered that death rates have been rising dramatically since 1999 among middle-aged white Americans, and the economists believe that they have a better understanding of what’s causing these “deaths of despair” by suicide, drugs and alcohol.

They attribute the premature demise of 45-55-year-old, non-college educated white people to shrinking opportunities in the U.S. labor force, which leads to despair, broken marriages, and ultimately, substance abuse. With the rapid advancements in technology likely replacing many more jobs, this tragic situation will likely become worse.

Couple this development with the loss of traditional DB plans that provided financial security, and you can imagine the profoundly negative social and economic ramifications that will follow. For those of us, and
today it is most of us, in a defined contribution plan, the build up of assets in our accounts tends to occur later in life when many of those expenses related to having children or paying for our educations are no longer impacting our incomes and savings rates.

Job losses for those in their late 40s and 50s can be devastating, as individuals often have to tap into their “retirement” account to help bridge the employment gap. If you are fortunate to find employment, this strategy may be temporary and not devastating, but for a significant percentage of those that find themselves out of work, this can be a financial death knell.

As a nation, we must once again find a way to offer pensions that provide a monthly annuity and survivor benefits, while taking out of the equation the investment management responsibility by those least capable of performing this task. In addition, we need to provide job retraining for those workers who have been displaced.

My son, Ryan, has suggested that there should be a late-in-life Americorps-type program where displaced workers take classes for a year. He suggested that these workers should be retrained in those sectors likely to benefit from technology’s advances. Importantly, if you have the good fortune to spend two years working for a public entity, your program costs are forgiven. I like the idea.

We cannot afford to write these people off. As a country generating weak growth already (GDP at 1.6% for 2016), forcing millions of potential workers to the sidelines won’t do anything to jumpstart demand for goods and services. Getting people re-trained, working, producing goods and services, and earning wages for their effort is far more ideal than having our social safety net stretched beyond our wildest imaginations.

**Final Thoughts**

The loss of the traditional DB plan may prove devastating for many. These plans must be saved, but changes need to occur in how they are managed. Chasing the ROA has not proven to be a successful model. We would be happy to share with you our thoughts on what needs to be done. We look forward to hearing from you.