

DC Plans Can Help with a Demographic Crisis

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“Dear future generations, please accept our apologies.”

—Kurt Vonnegut

As pundits decry the declining labor force participation rate, they miss a simple point. More people are retiring than are entering the labor force—a simple result of our demographics. The United States is an aging society, and the so-called “Silver Wave” (referring to the trend of Baby Boomers retiring) explains much of the decrease. As Baby Boomers represent roughly one-quarter of the U.S. population, it should come as no surprise that as they retire, the overall labor force participation rate will inevitably dip.

More distressingly, this age cohort already is taxing the Social Security system. The math spells trouble: fewer people in the labor force supporting more people collecting benefits. Figures from the 2016 Social Security Trustees Report make for sobering reading. In 1950 there were 16 workers per retiree. By 2015 this ratio had dipped to 3 workers per retiree, and will drop to 2 to 1 by 2035.

The same report cautions that the combined Social Security trust fund will be depleted in 2034. From that point on, scheduled income (in the form of payroll tax) will be sufficient to cover only three-quarters of scheduled payments.

With defined benefit (DB) plans increasingly rare, the often cited “three legged stool of retirement” (DB, defined contribution (DC), and Social Security) is wobbling badly. With this in mind, DC plans can be expected to pick up the slack. As such, plan sponsors and providers must increasingly assess how best to tap the income-generating potential of DC plans. Looking at a DC plan from this “decumulation” lens, attention can focus on:

- **Operational aspects:** types of withdrawals allowed (e.g., moving beyond lump sum payments to allow installment and partial distributions)
- **Investment lineup:** what options can facilitate payouts to retirees
- **Communication:** what sort of efforts can be made to educate those in and near retirement about their options and the potential benefits of keeping money in the plan

By viewing the plan from a decumulation lens, retirees can move from the wobbly three-legged stool to the comfort of an easy chair cushioned by robust DC plans.



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