

The Ambachtsheer Letter

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THE MOVEMENT TO DC PENSION PLANS: BOON OR BANE?

Henry Kissinger: “*Chairman Mao, do you think the French Revolution was a success?*”

Chairman Mao: “*I think it is too early to tell*”.

Too Early to Tell?

Our sister company *Cost Effectiveness Measurement Inc.(CEM)* held its first ever DC Client Conference this month. The day-long interaction between 25 large DC (mainly 401[k]) plan sponsors, new research findings from the *CEM* database, and a handful of invited guest speakers, produced important insights about the unfolding world of DC pension plans. We share them in this *LETTER*.

Former Assistant Secretary of Labor for Pension and Welfare Benefits, Olena Berg Lacy, was the first guest speaker. She reminded the attendees of the exchange between Henry Kissinger and Chairman Mao (see above), and declared that Mao’s view on the French Revolution parallels hers on the DC pension revolution of the 1990s.

Here are some of her key observations:

- The accelerating movement towards DC plans in the 1990s coincided with an unprecedented bull market in stocks. These joint events have now created a broad consensus that DC pension plans are ‘the answer’ to pension plan design and coverage in the USA.
- Often, this momentum has been aided and abetted by significant exposure to own-company stock. This has re-enforced the questionable idea that the dual concepts of retirement income security and employee stock ownership can happily co-exist side-by-side. As a result, many workers now have 401[k] account balances in the hundreds of thousands of dollars at risk.
- This DC enthusiasm has even spawned plans to convert part of the US Social Security System into individual retirement savings accounts. Advocates of this questionable idea haven’t thought through the implications of administering millions of tiny investment accounts owned by people who in many cases don’t know a stock from a bond.
- Yet, the true viability of the DC system has yet to be tested. Can it withstand a multi-year bear market in stocks? We don’t know yet. As Chairman Mao said, it is too early to tell.