# New Retirement Plan Designs for the 21st Century

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## Abstract

The trend away from defined benefit (DB) pension plans to defined contribution (DC) plans has caused a significant shifting of investment and longevity risks from employers to employees. In addition, small employers have never embraced DB plans, due to their complexity and high administrative costs. As a result, most future retirees will have no DB plan and will bear significant investment and longevity risk through their DC plan benefits.

Currently, U.S. tax legislation militates against the sharing of these risks and encourages either employers or participants to bear both risks. While it may be argued whether employees or employers are better positioned to bear the investment risk, there are advantages to be gained by pooling longevity risk. Longevity risk is very predictable for large groups, but is a significant, unpredictable risk for individual retirees.

We present some ideas for new retirement plan designs that share one or both of these risks. These ideas are inspired by considerations of who may be better positioned to bear the risks and rewards, and a desire for more flexibility in how these risks are shared between employers and employees. As noted above, we think it makes sense to pool longevity risk. We also think investment risk may be more appropriately borne by higher income employees or employees who have a solid retirement foundation. Some of our ideas are possible under current tax legislation, while others would require relatively minor legislative changes. We also propose a multiemployer DB approach that small employers may find attractive.