

Why Defined Benefits never work

There is a great deal in the news about Pension promises being broken. They aren't the only future promises that are in trouble. If you think taxes won't rise, or that "free" Health Care and fully funded Social Security will be there in 30 years, you will be very disappointed. But the most important questions do not involve "what will happen" – buy "why" we're in this current mess and then "how" will we "fix" the issues. As Christians, we must start with ourselves – and then work outward.

As the Founder and President of a behavioral research firm, I have discovered that the most important things to know are "the causal factors of behavior" in order to impact future behaviors and outcomes. So, why do Defined Benefits never work?

Overall, Defined Benefits don't work because those that promise them, know (believe) they don't have to pay for them. In parallel, there is a Pollyanna attitude, the desires of the potential recipients of Defined Benefits, to believe in a risk-free future—because: it is just so darned appealing compared to the current struggle.

This issue of Defined Benefits – promises made by those that don't have to keep them is pervasive in our country: in politics (promises made by politicians that they not only don't pay for – they don't even have to worry they will ever be held accountable for); in business (where current Boards and Management will themselves be long retired, probably even dead, before some future individuals have to "pay" – or more likely explain why they aren't going to pay); and cancerously, within the behavior of nearly every American (buying something on credit – in reality, buying something you don't have the money to pay for, promising yourself to pay for it later).

How could this ever get fixed? It is an enormous, behaviorally and "belief" based problem.

There are three specific changes needed in the hearts and minds of Americans (this is the most important thing to achieve) – and there are three specific actions to implement.

Changes needed in the hearts and minds of Americans

1. A return to the practice of self-government. Fundamentally, the Founding Fathers of the United States built the principles of formal government upon the responsibilities assumed by its citizens for self-government. They assumed that few individuals would ever lose their ability to be self-governed so completely as to create a whole class of people absolutely dependent on the "mercy of others". They also knew that as a *Christian nation*, the citizens would support those truly in need who had no other means. All those able to self-govern, the balance of the nation, would rely on their own resources, resourcefulness, and strength of character. That is what a democracy requires. If you are to live in a "free" society, not one ruled by even a benevolent dictator who takes care of your every need, you must first and foremost—provide the governing of yourself.
2. A conviction that there is no legitimate "right of retirement" or "golden-age" of idleness. Where is the Biblical support for retirement? There isn't any. Where is the virtue in not working until the Lord's return? There is none. Granted, some can not "work" any more as they are sick or disabled. The Biblical response to them is assistance – "provide for the widows and orphans" is to give as required to the helpless. In doing so you are giving to Christ – Matt. 15: 24. But my point is this: to simply "retire" either because you can or because you want to is not a legitimate way to end your days. It is not a right, it is not

legitimate. It creates dependency upon the young, the state, and the nation at large. Finally, it creates a cycle of greater and greater dependency by way of example. Now, everyone looks forward to “retirement” instead of forward to eternity.

3. The responsibility for the care of the elderly belongs to the family. Where there is no family, the responsibility falls to the family of God—the people of God, not to the state. This has numerous implications, the most significant of which is “it requires a heart of sacrifice” on the part of those giving the care. Financial sacrifice mostly – and this hits hardest at us as we are so strongly influenced by the culture of greed in which we live in modern America. It requires “down-sizing” versus “super-sizing” our desires. It means not buying things, to prioritize people ahead of possessions.

The causal factors behind the dependency created by the concept of Defined Benefits are these three: 1) the lack of self-government, counting on somebody else to pay, 2) the belief that “I have the right to a happy, idle, self-gratifying retirement after so many years of toil”, versus a view that “I am to be as productive for the Lord as I can be, looking to eternity for my reward”—not the golf course, and 3) the shameful neglect, and selfish gratification of my own wants versus the needs of my parents, or those in real need in their old age.

Three actions to implement

1. Eliminate the behavior of promising to pay for something in the future in order to get it today. Authors, reduce-your-debt gurus, and financial experts all say, “get out of debt”, “live within your means”, “don’t buy it unless you can pay for it” and phrases of that ilk – but the problem is the causality of the behavior of putting off paying. This is the central disease. If we first fix it for ourselves – eliminating this behavior, then we can legitimately demand it of employers – by wanting Defined Contributions, actual cash put in savings accounts that are ours, not some amount to be paid from future results. We should want this kind of benefit. Defined Benefits pay “retirees” from results achieved after they retire, but Defined Contributions is actual savings (cash) put in your account as the results are achieved. Who wouldn’t realistically want that! Finally, we should demand that Government programs NOT be built on future promises to pay from future results, but that spending is from current actual funds. This is the answer to the Deficit.
2. Save 10% of your income, and invest it wisely. Everyone can do this, they just don’t want to. When forced, people live on less. Use self-government and do it voluntarily. Down-size everything: don’t buy a new car, buy a used one—live in a smaller house—don’t go out to eat as often—don’t buy your coffee at Starbucks, make it at home. Save and invest from the first day of work. If you have never understood the power of compound interest here is the only fact you need to know: saving \$1040 per year, just \$20 a week (far less than 10% for most people), grows to more than \$1,331,500 in 50 years at 10%. Start when you are 15 when get your first paycheck. Parents – teach your children to save.
3. Set aside 10% of your income for the work of the Lord. Give some to support the ministry of your local church – pay the pastor, equip the saints. Give some to the spread of the gospel through physical assistance and missions. Set aside (ultimately to give/spend) for the care of your parents/family or someone else in need. Everyone can do this, they just don’t want to – but importantly, this is commanded, where saving and investing is not. Both are important, this is more important.

Defined Benefits create a culture of dependency. Help break it. Start with yourself.

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